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THE CHALLENGES OF THE SMALL INSULAR DEVELOPING STATES: ARE THE MAURITIUS AND THE SEYCHELLES EXAMPLES FOR CAPE VERDE?

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ACRONYMS

ACP	Africa Caribbean and Pacific Countries
ADB	African Development Bank
AOSIS	Alliance of Small Island States
BPoA	Barbados Programme of Action
CAP	Common Agricultural Policy
CEB	Central Electricity Board
COMESA	Common Market for Eastern and Southern Africa
CVE	Cape Verdean Escudo
DBM	Development Bank of Mauritius
DC	Development Certificate
EC	European Commission
ECDPM	European Centre for Development Policy Management
ECOWAS	Economic Community of West African States
ECP	Economic Citizenship Programme
ECSIEP	European Centre on Pacific Issues
EcVI	Economic Vulnerability Index
EDA	Economic Development Act
EEZ	Exclusive Economic Zone
EPAs	Economic Partnership Agreements
EPZ	Export-processing Zone
EVI	Environmental Vulnerability Index
FDI	Foreign Direct Investment
FIDECO	Fishing Development Corporation
GCI	Growth Competitiveness Index
GDP	Gross Domestic Product
GoM	Government of Mauritius
GoS	Government of Seychelles
HDI	Human Development Indicator
HPI	Human Poverty Index
IBC	International Business Companies Act
ICT	Information and Communication Technologies
IEI	International Economic Integration
IMF	International Monetary Fund
IMR	Infant Mortality Rate
IOC - ARC	Indian Ocean Rim Association for Regional Cooperation
IPA	Investment Promotion Act
IT	Information Technology
LDC	Least Developed Country
MDGs	Millennium Development Goals
MEDIA	Mauritius Export Development and Investment Authority
MES	Minimum Efficient Scale
MIRAB	Migration, Remittances, Aid and Bureaucracy
NDP	National Development Plan/Programme
NPDP	National Physical Development Plan

NSDS	National Sustainable Development Strategies
ODA	Official Development Aid
PPG	Public and Publicly Guaranteed
PPP	Parity Power Purchase
SADC	Southern African Development Community
SBA	Seychelles Business Authority
SGR	Strategic Global Repositioning
SITZ	Seychelles International Trade Zone
SD	Sustainable Development
SIDS	Small Insular Developing States
SMB	Seychelles Marketing Board
SOPAC	South Pacific Applied Geoscience Commission
SRI	Social Resilience Index
SSA	South Saharan Africa
STC	State Trading Corporation
SVI	Social Vulnerability Index
TFP	Total Factor Productivity
UN	United Nations
UNCED	United Nations Conference on Environment and Development
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UN-ECLAC	United Nations Economic Commission for Latin America and the Caribbean
UN-ESC	United Nations Economic and Social Council
UNU	United Nations University
UWICED	University of West Indies Centre for Environment and Development
WB	World Bank
WIDER	World Institute for Development Economics Research
WTO	World Trade Organisation

ABSTRACT

This dissertation attempts to review the critical theoretical issues concerning Small States and Small Insular Developing States, while aiming to answer some crucial related questions and to distinguish between these two notions.

Additionally we attempt to spotlight some issues related to the development of Cape Verde having in consideration a possible comparison with two of the most successful African SIDS, namely Mauritius and Seychelles. A brief analysis of the social and economical situation of the three countries is made, seeking to underline their key development elements and assessing their economical and social structure.

This dissertation mainly aims at assessing what Cape Verde can apprehend from the Mauritian and Seychellois experience, in an attempt to draw some useful conclusions to its development.

Keywords: African Comparative Studies, Small Developing States, Small Island Developing States (SIDS), Vulnerability, Development Strategies.

JEL (Journal of Economic Literature) Classification System: F43, O10, O20, O55, O57, P52.

SINOPSE

Esta dissertação procura rever as questões teóricas essenciais que dizem respeito aos Pequenos Estados e aos Pequenos Estados Insulares em Desenvolvimento e, simultaneamente, responder a algumas questões relacionadas com este âmbito.
Adicionalmente, pretendem-se destacar algumas questões relacionadas com o desenvolvimento de Cabo Verde, tendo em consideração uma possível comparação com dois dos SIDS Africanos mais bem sucedidos, nomeadamente as Maurícias e as Seicheles. Com este intuito, é efectuada uma breve apreciação da situação económica e social destes países, numa tentativa de sublinhar os seus elementos fundamentais e de analisar a sua estrutura económica e social.
Esta dissertação tem como seu objectivo fundamental a apreciação do que Cabo Verde poderá apreender da experiência de desenvolvimento das Maurícias e das Seicheles, numa tentativa de elaborar conclusões frutuosas para Cabo Verde.

Palavras-chave: Estudos Comparativos sobre África, Pequenos Estados em Desenvolvimento, Pequeno Estado Insular em Desenvolvimento (SIDS), Vulnerabilidade, Estratégias de Desenvolvimento.

Sistema de Classificação JEL: F43, O10, O20, O55, O57, P52.

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INTRODUCTION

Cape Verde is a small developing archipelagic African state, often mentioned for its political and democratic stability. Though it is a country that shows positive signs on what concerns development and economic growth, especially when compared with its closer African neighbours, there are some worrying signs. In fact, in a context of globalisation and growing international competition, it is no longer enough to achieve economic growth, but imperative to foster sustainable growth at a faster rate than that of potential competitors and in an attempted process of catching-up.

The literature often states Africa as a lost continent for development. Failures are clear when we observe the continent's statistics. However, there are a few cases that stand out of this somehow dismal picture. In fact, country's such as Botswana, South Africa, Mauritius or Seychelles are frequently referred to as Africa's success stories.

One of the core questions in development is, undoubtedly, why did some countries or regions "take off" whereas others seemed to stall back?

More specifically, and in the case of Cape Verde, the question is what options must be taken for this country to truly embark on the sustainable development path. A possible answer could lie within similar countries that had managed to overcome this harsh route. In an attempt to reduce external factors affecting our analysis, an option was made to following African countries that face similar constraints.

As in the last years, there has been a great increase on what concerns problems related with small size and development. Recent developments calling for distinctions amongst *Small States* and the notion of *Small Insular Developing States* (SIDS) led us to decide that Cape Verde should be compared to other African island countries. The choice related to which countries must be used as benchmarks turned out to be an easy one as, in Africa, only Seychelles and Mauritius have the status of successful development experiences being simultaneously SIDS.

The main objective of this dissertation is therefore to identify if Cape Verde is in the condition to apprehend something from the Mauritian and Seychellois development experiences, in an attempt to discern potential development pathways.

As with any other, we cannot expect to obtain a clear and absolute answer. In fact, while some options could be applied to Cape Verde, many others neither can nor should be applied. Furthermore, any applicable options must be contextualised to the country's specifities. Although our objective is to find a positive answer, we are fully aware that in development economics "copying" development patterns is a myth, and that the only solution for developing countries is an adequate and fully thought adaptation of potentially correct measures.

Methodologically speaking, this dissertation is essentially based in the systemisation and analysis of both bibliography and statistical data concerning the subject.

The structure of the dissertation is divided into two main parts with two chapters each.

Part I is related to the theoretical introduction and context whereas Part II is focussed on the comparison between Cape Verde, Mauritius and Seychelles.

In Chapter I we will analyse the *Small Developing States*' characteristics and vulnerabilities, starting with a brief synopsis of the problems related with size and development and the role of the international organisations in the process of conceptualisation of Small States and Small Insular States.

Chapter II is dedicated to the analysis of the characteristics and vulnerabilities of the *Small Insular Developing States*. Additionally, this chapter also includes recommendations for enhancing resilience and overcoming vulnerability in these countries and comments on issues such as the Role of Institutions, Vulnerability and Trade or Opportunities and Challenges from Globalisation.

The analysis of the social and economical situation of Cape Verde and the most successful African *Small Insular Developing States* (SIDS), namely Mauritius and Seychelles, is carried out in Chapter III, in an attempt to underline their key development elements.

Chapter IV is reserved for the comparison of the case-study countries. In this Chapter we attempt to analyse if Cape Verde can apprehend something from the Mauritian and

Seychellois development experience and more specifically what can it apply to its development programme.

In the Conclusion we attempt to summarise the main inferences from this dissertation, concluding with possible development pathways for Cape Verde, taking in consideration both the Seychellois and Mauritian development experiences, as well as the literature available on the subject.

PART I

CHAPTER I

THE SMALL DEVELOPING STATES: CHARACTERISTICS AND VULNERABILITIES

Throughout this dissertation we will try to answer some questions related to *Small States* and *Small Insular Developing States* (SIDS). We will start by a brief synopsis of the problems related with size and development, introducing the concepts and measures of size. The role of the international organisations in the process of conceptualisation of small and small insular states will also be briefly explained.
A note will be made on the need to distinguish between small and small insular states. The discussion will be made on the basis of this distinction. Section 2 will be focused on small developing states and their characteristics while section 3 is devoted to the concept of vulnerability, describing the different vulnerabilities existent in small states. The Vulnerability Index will also be briefly described in this section.

1. Size and Development: A Synopsis

Early academic activity concerning problems and prospects of *small states* is related to a conference by the International Economic Association, in 1957, on the economic consequences of the size of nations[1]. As the number of independent developing countries increased due to the processes of independence, more attention was drawn to the problems of these countries, particularly in what concerned their relationships with their former metropolitan powers.
In 1972, in Barbados, another important conference was held by the Institute of Development Studies of the University of Sussex[2]. This conference was devoted to the

[1] For more information on this topic see ROBINSON (1960).
[2] More information on this conference is available on the book by SELWYN, P. (1975) (ed), "Development Policy in Small Countries". *Croom Helm*, London quoted in JALAN (1982a).

reflection about development issues and to the implications of economic dependence on the future growth prospects of small Caribbean States.

Among earlier studies is the work by DEMAS (1965)[3] concerning Caribbean economies. According to this author, the economic structure of small states is different from that of larger countries, therefore, implying new analytical tools and concepts. The author also mentioned the need for a "*theory of size*" as an independent factor in development. Similarly, JALAN (1982a) concluded that it is unrealistic to consider the problems of economic policy in developing countries independently of size.

It can be considered that small states present the same characteristics of larger ones implying the use of the same theoretical framework[4], even if on a different scale. Nevertheless, smaller countries are not just smaller versions of larger countries. Consequently, LLOYD and SUNDRUM (1982) consider that the systematic relationship between size and economic variables is not necessarily one of proportionality.

Furthermore, the relative size of countries is likely to affect the development options available to countries, although it is possible that more factors other than size are significant in the determination of the success of the development efforts.

LLOYD and SUNDRUM (1982) note that small countries are a heterogeneous group and that, therefore, it may not be possible to evolve a general theory on small countries for the purpose of analysing the options of specific countries.

In fact, each small state is unique and needs to address its development prospects in the context of its own cultural, historical and social realities. Nonetheless, most small states share a number of common characteristics and their identification and comprehension will enhance the effectiveness of aid and assistance to these countries.

On what concerns *small states,* the literature indicates that, in addition to sharing some basic characteristics with developing countries, they face "*additional and at times more severe constraints"*[5] due to their special features, implying special assistance both in terms of content and instruments used.

[3] DEMAS, W.G (1965), "The Economics of Development in Small Countries with Special Reference to the Caribbean", Montreal: *McGill University Press.* In READ (2001).

[4] Being the underlying assumption the fact that the diverse economic variables vary proportionally, with some measure, to size.

[5] BELLANTYNE (1998), pp. 2.

Having Small States as the framework, *Small Insular Developing States* seem to be a very peculiar case. In this line of thought, SIDS have argued that their uniqueness and specificity set them apart from other developing countries, calling for special treatment due to their special characteristics. SLADE (1998) considers that these characteristics include being small islands, often geographically remote, environmentally fragile and economically vulnerable. However, and according to BELLANTYNE (1998), there isn't a single and clear definition in relation to Small Island Developing States.

The awareness of the international community to the specificities of SIDS, in particular from the United Nations, culminated, after the Barbados Global Conference on the Sustainable Development of Small Island States[6], in the implementation of a programme of action focussing on the principles and commitments to sustainable development.

According to the Conference Report "*small island states should, in accordance with their own priorities, endeavour to achieve the goals of sustainable development, by, inter alia, formulating and implementing policies, strategies and programmes that take into account development, health and environmental goals, strengthening national institutions and mobilising all available resources, all of which are aimed at improving the quality of life.*"[7].

The growing acceptance of SIDS specific characteristics comes hand in hand with the conclusions of subsequent meetings held by the United Nations, namely that "*as a group small island developing States are more vulnerable than other groups of developing countries*"[8]. In view of these statements, there is a wide acknowledgement, by the international community, of the characteristics which are special to small island developing states and that largely condition their prospects for sustainable development.

The sources of the recent interest on the economic vulnerability of small states might be traced to a growing international pressure exerted by this group of countries as well

[6] This Conference, was a follow up to the 1992 United Nations Conference on Environment and Development (UNCED) which introduced Agenda 21 as an action plan. In 1992, the importance of developing National Sustainable Development Strategies (NSDS) was stressed and in Barbados, a programme of action for small islands to implement Agenda 21 was set out – The Barbados Programme of Action (BPoA).

[7] UN (1994), Annex 1: Resolution 1 adopted by the Conference – The Declaration of Barbados, Part II, Paragraph I.

[8] UN-ESC (1998), Part III: Conclusions and Recommendations, Paragraph 15 (a).

as to the recent Asian crisis, that led to the acknowledgement that not only small island developing states, LDCs and commodity dependent economies were vulnerable [GUILLAUMONT (1999)].

Thus, in various contexts other than those related to SIDS, the concept of vulnerability appeared to be a relevant one, implying the need for a broader definition, likely to cover the specific vulnerability of different kinds of countries, among which SIDS.

This attempt to "*positively differentiate among recipient countries*"[9] derives from a need to drive towards a more effective aid and international cooperation. As a result, countries with special needs and that evidence better performance, such as SIDS, should deserve special recognition.

After all these years, many questions remain unanswered. Is there a critical minimum size of nations? Is smallness a constraint or a positive factor in development? How is a small state to be differentiated from a large state? Does smallness refer to land, population, market size or level of development?

Recent developments call for distinctions amongst small states and the notion of SIDS requires a new analysis. Therefore, the key question is if SIDS are a distinct category among small states, deserving specific treatment? In other words, under what conditions does smallness and insularity become a liability or an asset?

1.1. Conceptualisation and Measurement of Size

There is some degree of inconsistency in terms of the basic nomenclature of small states. This is partly a reflection of the evolution of terminology and partly a methodological question concerning the existence of thresholds. In fact, "*the dividing line between small and large countries changes throughout history, as population grows, and on the other hand, as the number of countries change*" [STREETEN (1993: 197)].

Moreover, size is, according to JALAN (1982a), a relative concept and will depend on the issues being examined. Therefore, in the absence of a satisfactory definition, most

[9] BELLANTYNE (1998), pp. 1.

authors have been forced to use arbitrary cut-off points, with no special significance, in order to distinguish between small and large economies.

For instance, KUZNETS (1960) used an upper limit of 10 million people, implying that 134 economies would be considered small today. STREETEN (1993) also suggests a population threshold of 10 million for a small country and one of less than 5 million for very small states.

The Commonwealth uses 1.5 million people as a threshold[10], but includes in its study larger countries, such as Jamaica, Lesotho, Namibia and Papua New Guinea, because they share many of the same characteristics of smallness[11]. However, incomes and stages of development of these countries vary widely, from very poor African countries such as Guinea-Bissau (with per capita GDP of USD 160), to wealthy countries such as Brunei, Cyprus, Malta and Qatar (with per capita GDP of USD 9.000).

BRÄUTIGAN and WOOLCOCK (2001) define small countries as those with a population of five million or less in conformity with recent research by COLLIER and DOLLAR (1999).

However, it should be noted that the use of arbitrary and different thresholds has created difficulties in testing the validity of prepositions advanced by various authors regarding the development process in small economies.

The relevant literature concerning the conceptualisation of a country's size distinguishes between *small states* [BRIGUGLIO (1995), SUTTON (1998), COLLIER and DOLLAR (19990], *micro states* [CALDWELL *et* al (1980), ARMSTRONG and READ (1995), EASTERLY and KRAAY (1999)] and *very small states* [STREETEN (1993)].

On what concerns the measurement of small size, there are four main economic and geographical indicators. These are population, GDP, geographical area and terms of trade[12]. Several studies have attempted to capture the different aspects of size with the creation of a composite measure. However, no definition is likely to be fully

[10] Agreed to by the Commonwealth advisory Group in its report "A Future for Small States: Overcoming Vulnerability", 1997.

[11] According to this indicator, 45 developing countries are small, accounting for 1/3 of developing countries but hosting only 0.4% of the total population living in developing countries.

[12] For further details see pp. 1-3 in READ (2001).

satisfactory and the use of population is considered to be adequate. It is highly correlated to territory size and GDP and hence is an indicator of size that accounts for small states' limited resources.

1.2. Small States versus Small Insular States

Small states share some similarities with various groups, namely with the LDCs whereas SIDS share numerous characteristics with small states. In fact, three out of four developing *small states* are islands[13]. Thus, Small Insular Developing States will necessarily share numerous characteristics with Small Developing States, being a sub-group of Small States [SELWYN (1980)].

Therefore, LLOYD and SUNDRUM (1982) believe that the problems of small countries must also be studied in respect to their remoteness and insularity since production and trade patterns of small countries are not only a matter of size.

The question remains whether SIDS possess specific characteristics, other than those present in all small states, that turn them into a distinct group[14], a useful category to make forecasts of likely social and economic trends and to conclude on the appropriate policies for particular countries.

DOMMEN (1980a) considers that the differences between islands and other states seem to be a consequence of the historical, physiological and environmental peculiarities of islands. In fact, islandness is thought to create additional challenges[15], particularly related to isolation and dispersion, with consequences on the transportation costs and on the degree of openness [READ (2001)].

While some authors argue that these countries present unique features that originate a distinct group[16] other authors and the main international organisations have yet to

[13] COMMONWEALTH SECRETARIAT (2000).

[14] As described by SELWYN (1980), the question is whether is possible to say anything useful about social and economic issues on islands, which could not be said about small countries in general.

[15] For instance, the EU considers that Islandness, remoteness and smallness render island states both economically and environmentally sensitive [TUONOMEN (1999)].

[16] For instance, BRIGUGLIO (1995), SUTTON (1998) BINGER (2002), and WITTER, BRIGUGLIO and BHUNGLAD (2002).

recognise this specificity. Islandness has also been considered irrelevant by some other authors[17].

SUTTON (1998) considers that there are many similarities, such as economic exposure, remoteness, insularity and the susceptibility to natural disasters, which should imply that *small insular developing states* would be considered as a distinctive group. WITTER, BRIGUGLIO and BHUNGLAD (2002) assert that characteristics such as insularity and smallness lead to other specific features that directly affect SIDS' economic vulnerability and result into the need to establish a differentiated group with singular requirements for small island developing states.

More recently, a consensus is emerging towards the fact that many of the issues faced by small island states are similar to those of smallness in general, but the question remains whether or not SIDS can be considered to be a group in itself [DOMMEN (1980a), DOLMAN, (1985), BRIGUGLIO (1995)].

1.3. The Role of International Organisations

On what concerns the different conceptual approaches existent in the international fora several can be mentioned[18], some of which will be further discussed.

One of the prevalent viewpoints, and which constitutes basis to our discussion, is defended by the UN system. The SIDS Approach is translated, for instance, into the Barbados Programme of Action or the Johannesburg Summit.

The Small States and Small Economies Approach is a result of the World Bank/Commonwealth Secretariat Joint Task Force and is increasingly accepted by the WTO, as demonstrated in the Doha Round Ministerial Declaration Paragraph (§) 35[19] or in the Cancun Statement[20].

[17] See for instance, SELWYN (1980) who considers that it is difficult to identify particular elements of insularity and those identified reflect history as much as insularity.

[18] This analysis was presented by SALMON (2004).

[19] The November 2001 Declaration of the Fourth Ministerial Conference in Doha, Qatar, provides the mandate for negotiations on a range of 21 subjects. Its paragraph 35 is concerned with small economies. It states that "Small economies face specific challenges in their participation in world trade, for example lack of economy of scale or limited natural resources".

[20] The Statement was the end product of the Fifth WTO Ministerial Conference, held in Cancun in September 2003. Its main task was to take stock of progress in negotiations and other work under the Doha Development Agenda. On what concerns Small Economies, the statement reaffirmed the commitment to the Work Programme on Small Economies and urged Members to adopt specific measures that would facilitate the fuller integration of

An equally important approach is that of the Economic Vulnerability mainly defended by academics such as Lino Briguglio but equally supported by the UN and by the WTO.

The Islandness Approach is mainly related to the Lomé and Cotonou Agreements, which make concessions to Islands, LDCs and Landlocked countries. Although vulnerability is also an issue taken in account, smallness is not mentioned.

Not to be disregarded is the EU Ultraperipheral Regions Approach, which highlights several characteristics related to the above-mentioned regions, most of which are small, remote and islands, and which justify the eventual adaptation of the EU Common Policies applied to these regions. Academics believe that this approach could be extended and adapted to the reality of similar non-EU countries and consider that it should be kept in mind for the future ACP negotiations.

This analysis might lead us to conclude that these strategies are contradictory. However, SALMON (2004) believes, for instance, that the UN SIDS approach is supportive of the WTO Small Vulnerable Economies approach implying that the strategies are simultaneous and complementary.

1.3.1. United Nations

Within the UN, the discussions on the special case for small island states started rather early. The case of the small island developing countries was raised during the UNCTAD III in the 70s. The focus was on the disadvantages associated with insularity and remoteness.

The debate was further developed in the 80s and 90s within that same organisation. In addition, a special meeting of experts from small island states and from donor countries was organised, in 1990. It identified the intrinsic problems of island developing countries[21], the acquired disabilities[22], the human resource constraints and the institutional weaknesses.

small vulnerable economies into the multilateral trading system. Its Annex C is concerned with Special and Differential Treatment.

[21] Resource scarcity, proneness to natural disasters, environmental fragility, transport and communications, security and related risks.

[22] Vulnerability to global hazards.

The meeting resulted in concrete proposals for action at the national level (institutions building, human resource development), regional level (increased regional cooperation to lessen economic vulnerability) and international level, calling for donors to recognise the special characteristics of island developing countries and to target those countries for special support measures.

In 1992, Principle 6 of the Rio Declaration[23] pledged that special attention should be given to the situation and needs of developing countries, particularly to the least developed and to those more environmentally vulnerable. All SIDS would fall within this category.

Chapter 17 of Agenda 21[24] addressed the special problems of SIDS, noting the combination of factors giving rise to vulnerability: small size, isolation from markets, ecological fragility, geographic dispersion and limited resources.

The international conventions on climate change and biodiversity, both signed in the context of the Rio process, contain specific acknowledgements of the special conditions and vulnerability of small island states. However, it was only in Barbados, at the 1994 global conference dedicated to SIDS, that the international community recognised their special characteristics and needs. Fourteen priority areas were identified in order to ensure the sustainable development of SIDS and a specific Programme of Action[25] to address their specific needs was adopted.

All vital issues for small island developing states were identified but implementation did not appear easy, especially due to the lack of financial and human resources as well as lack of coordination at a national and regional level.

More recently, the UN Agenda for Development adopted by the General Assembly in July 1997, reinforced both the acknowledgement of special circumstances of SIDS and

[23] The Rio Declaration was signed during the United Nations Conference on Environment and Development held in Rio de Janeiro between the 3-14 June 1992. It corresponds to the Annex I of the Report of the Conference.

[24] Agenda 21 was adopted at the 1992 United Nations Conference on Environment and Development in Rio de Janeiro and it reflects a global consensus and political commitment on the development and environmental cooperation. In this Agenda SIDS received special attention in regard to the resources, potentials and specific vulnerabilities and characteristics of each individual small state in the pursuit of more sustainable development.

[25] The Barbados Programme of Action (BPoA) resulted from the United Nations Global Conference on Sustainable Development of Small Islands Developing States in Bridgetown in 1994. The primary motive of the conference was to address the issues of sea level rise in connection with climate change. However, the BPoA covers a much wider spectrum of sustainable development issues including SIDS' actions and support by the donor community. Its implementation is meant to be consistent with a number of parallel international processes

the need for international support to help island communities with their development efforts.

1.3.2. European Union

Due to the fact that the EU has many links to a number of islands, it must be necessarily interested in the debate on island problems and vulnerabilities.

According to the Maastricht Treaty establishing the EU, in its relations with other countries the Community shall foster, in compliance with the objectives approved in the context of the United Nations and other international organisations, the sustainable economic and social development of the developing countries, the smooth and gradual integration of the developing countries into the world economy and the eradication of poverty.

In the different Lomé Conventions it was recognised that island states as well as land-locked countries are confronted with specific difficulties. Therefore, cooperation was "*aimed at devising and encouraging specific operations to deal with development problems caused by their geographical situations*"[26]. However, these specific problems were not elaborated and their consequences were not mentioned.

According to SUTTON (1998), small states derived considerable benefits from Lomé. But, he adds "*the vulnerability of small states has not been specifically acknowledged as neither has the development constraints imposed by size*" [SUTTON (1998: 3)].

The European Commission (EC) officials emphasise their commitment to poverty alleviation and highlight the special support available to least-developed, landlocked and island countries. Even though 21 of the 71 ACP countries are SIDS, the EC does not have special programmes for this group of countries.

In fact, when looking at the Cotonou Agreement, one acknowledges that small states, as a specific category, are not mentioned, although references are made to vulnerability and to a special provision for island and landlocked states, a situation that suggests some recognition of these countries special problems.

containing relevant provisions to the sustainable development of SIDS implying an integrated and participatory approach requiring inter-disciplinary, inter-sectoral and multi-institutional efforts.

[26] Lomé IV bis, article 8.

According to GRANELL (1999), Cotonou offers elements for positive differentiation in favour of small states since it takes into account their fragile and vulnerable economies. Yet, it does not consider necessary to establish an additional separate chapter on small states.

Hence, although the special case for small states is gaining recognition, it is clearly far from being accepted and there isn't a special fund to finance assistance to the group of island and land-locked countries. Furthermore, the EC is aware of the concerns that other non-island, non-small ACP countries might have on the establishment of a new SIDS group. After all, SIDS already receive relatively high per capita amount of funds when compared with larger developing countries and present relatively better results[27].

1.3.3. Commonwealth

As 32 out of the 54 members of the Commonwealth are classified as small states, these countries logically receive special attention from the Secretariat.

Work on small states started in 1985 with the preparation of a report by the Commonwealth Consultative Group called "Vulnerability: Small States in the Global Society"[28]. At the time, special attention was paid to military and political security issues (as a follow-up to the US-invasion of Grenada and in a Cold War Environment). Recommendations were made in the light of increasing self-reliance both in terms of national security and economic development. More specifically, the recommendations included to achieve sound and outward-looking economic development, economic diversification or to promote internal cohesion by strengthening public administration and the respect for the human rights.

A second report on vulnerability was written by a Commonwealth Advisory group in 1997: "A future for Small States: Overcoming Vulnerability[29]". It pays more attention to economic vulnerability and to the consequences of globalisation for small states and explores the options for small states in a new globalised context. The report concludes

[27] For further information turn to Section 2.2 – Chapter 1 concerning comments on FDI and Aid and to Section 3.3.1 - Chapter 1 concerning a brief explanation of the Singapore Paradox.

[28] COMMONWEALTH SECRETARIAT (1985), "Vulnerability: Small States in the Global Society." *Marborough House*, London. Mentioned, for instance, in HAITINK (1998) or BRIGUGLIO (2003).

[29] COMMONWEALTH ADVISORY GROUP (1997).

that small states are more susceptible to certain risks and threats namely in the areas of economic security, environmental sustainability, political independence, security and social cohesion.

The concerns about the political vulnerability of small states have changed since the end of the Cold War. Compared to many larger states, they are considered to be political stable. However, there are some new threats such as drug trafficking, money laundering, migration/refugees, challenges to territorial integrity and colonial issues. The report recommends seeking assistance from larger powers in security issues that are of common concern.

1.3.4. World Trade Organisation

Much has been accomplished since 1947 as there were no special provisions applying specifically to developing countries. Between 1960s and 1980s Special and Differential Treatment for developing countries was generally applied, given the predominance of developing countries memberships.

During the Uruguay Round (1986-1994) this principle was further developed since the contents and priorities shifted in favour of the low income and least developed countries. Nevertheless, SIDS were negatively affected by these provisions given that they are "betrayed" by their relatively higher income, as explained in section 2.3.1.

The WTO doesn't yet recognise small economies as a distinct group. Nevertheless, and for the first time since its establishment, the Doha Ministerial Declaration (2001), finally agreed to establish a Work Programme aimed at the resolution of trade-related issues that hamper the full integration of small vulnerable economies into the multilateral trading system. Consequently, SIDS have only managed to argue their case on the basis of small economies and not on the basis of small and insular economies, as this concept has not yet been acknowledged.

2. The Small Developing States: Their Characteristics

Researchers have argued that small states differ from larger states on economic, social and political factors and that smaller countries face different options from those available to larger developing countries.

As we will see in the next section, small developing countries may have higher per capita incomes, productivity levels and better human development indicators but also higher poverty and inequality. Small states are also said to have greater economic openness, higher volatility in growth rates and higher levels of aid intensity per capita.

On what concerns political aspects, these countries tend to have greater political centralisation and possible higher corruption levels, larger public sectors, a weaker state capacity, higher public services per unit costs and a higher level of perceived investment risk. Furthermore, some researchers argue that small states are more flexible and can adjust more rapidly to changes.

2.1. Small Developing States: Pros and Cons

BRÄUTIGAN and WOOLCOCK (2001) concluded that the differences between small and large countries are real but can be narrowed down to a few variables, namely growth volatility, foreign direct investment and the quality and quantity of foreign aid.

The Report of the Commonwealth Secretariat/World Bank Joint Task Force on Small States[30] concludes that small developing states share a number of characteristics that pose special development challenges. These include remoteness and isolation, susceptibility to natural disasters and to environmental change, as well as openness, limited diversification, poverty, limited institutional capacity, income volatility, difficulties in accessing external capital and an uncertain and difficult economic transition to a changing world trade regime [BRIGUGLIO (1995) and COMMONWEALTH SECRETARIAT (2000)].

[30] The Commonwealth Secretariat/World Bank Joint Task Report comments on ways to address the challenges small states face through a combination of domestic policy action, new approaches to regional cooperation, external support and assistance from multilateral and bilateral development institutions as well as improvements in the external environment of small states, with the intention of increasing trade prospects and attracting capital flows [COMMONWEALTH SECRETTARIAT (2000)].

Essentially, the conclusions from both BRIGUGLIO (1995) and the COMMONWEALTH SECRETARIAT (2000) can be said to be in harmony. In fact, BRIGUGLIO (1995) translates into his definition of small size the characteristics of limited diversification, openness, income volatility and access to external capital.

2.1.1. Small Size of the Domestic Market and a Limited Resource Base

One of the most significant characteristics of small states is, undoubtedly, the small size of their domestic market, which results on insufficient demand to reach the minimum efficient scale (MES) necessary for the output of many goods and services[31]. In other words, small states' economies suffer from diseconomies of scale concerning investment, transportation and the provisions of government services[32] as well as on the basic infrastructure[33]. Small states are, therefore, at a structural disadvantage relative to larger states [THOMAS (1982)].

As a result, international transportation costs are high[34], with consequences on the capacity to compete internationally, as prices will necessarily have to be above average, and the cost of living higher for reasons of scale and competition [HAITINK (1998)]. Furthermore, a small domestic market also inhibits competition and markets tend to be characterised by monopoly or oligopoly [BERNAL (2000) and COMMONWEALTH SECRETARIAT (2000)].

Another characteristic of small states is the existence of a limited domestic resource base, a clear result of the small geographical area[35]. Furthermore, where natural resources are present, sufficient domestic sources of capital to finance their exploitation tend to lack [READ (2001)].

Additionally, a small population also imposes a severe constraint on the domestic supply of labour, with a narrow range of skills[36] and facilities for the development of

[31] READ (2001).
[32] BRIGUGLIO (1995), SUTTON (1998) and WITTER, BRIGUGLIO and BHUGLAH (2002) and BINGER (2002).
[33] SELWYN (1980), HAITINK (1998).
[34] STREETEN (1993), BRIGUGLIO (1995), WITTER, BRIGUGLIO and BHUNGLAD (2002) and BINGER (2002).
[35] SELWYN (1980), TISDELL (1993), STREETEN (1993), HAITINK (1998) and BINGER (2002)
[36] SELWYN (1980), LLOYD and SUNDRUM (1982) and STREETEN (1993) are among some of the authors that mention this characteristic.

human resources. This situation limits the relevance of standard models of structural transition in developing economies based on the assumption of unlimited supply of labour, notably the Lewis Model[37]. A clear example of this situation is the absence of higher education facilities in many small countries.

2.1.2. Limited Production Diversification

STREETEN (1993) argues that, in general, small states seem to be more dependent on the export of raw materials, being more concentrated on products on which they have a comparative advantage[38], lagging behind in what concerns the development of a manufacturing base[39]. In fact, according to THOMAS (1982), almost all developing countries have encountered production problems while attempting to build their manufacturing sectors. These are mainly caused by inadequate labour skills, inappropriate technologies and insufficient capital, as well as marketing problems caused by a deficiency in domestic demand[40].

Furthermore, SUTTON (1998) describes small states' economies as being more specialised and less diversified, experiencing commodity export concentration[41], with consequences on the fluctuation of growth rates over time and on the capacity of the economy to adjust to shocks[42]. BINGER (2002) also describes small states as being dependent on imports since they produce a limited range of commodities.

2.1.3. The Structural Openness of Trade and its Consequences

Another characteristic of small states' economies is the structural openness of trade[43], capital flows and technology[44], a situation that is related to the fact that small states

[37] For further details on structural transition models applied to small countries turn to section 2.3.1.

[38] However, the author believes that there are some exceptions, such as Hong Kong, Singapore and to some extent Malta, that were able to develop entrepreneurship and skills to produce or to add value and to export widely diversified goods.

[39] It should be mentioned that Mauritius is, in this respect, a notable exception.

[40] However, the author argues that a few small developing countries have developed manufacturing sectors based on successful export performance with substantial contributions to GDP. Potential to develop is dependent on supply factors such as the development of skilled productive labour, the ability to generate domestic savings and to attract foreign capital, as well as on the evolution of demand.

[41] This idea is also expressed by LLOYD and SUNDRUM (1982) and HAITINK (1998) who consider that these countries experience export concentration on a few commodity products.

[42] READ (2001) also confirms the existence of a narrow structure of domestic output, exports and export markets, with small states being highly specialised and comparatively undiversified.

[43] This characteristic is mentioned by SELWYN (1980), READ (2001) and HAITINK (1998).

must necessarily pursue highly open and well-integrated trade regimes in order to overcome the limitations of a small domestic market, incapable of driving an autonomous process of self-sustained internal growth. Nonetheless, these states are "*not particularly open to financial flows*"[45], despite the potential benefits that accrue from the opportunities of risk diversification.

SELWYN (1980) and STREETEN (1993) underline that small states' openness and small size make the initial change of import substitution industrialisation very difficult. However, it is essential for small states to take advantage of the international economy since exporting is the only option to capture economies of scale and the sources of capital accumulation for economic development.

In other words, international trade is therefore critically important to small states since it is used to finance essential import and to alleviate many of the constraints associated to sub-optimal domestic market size. Openness to trade is not only necessary for small states to overcome the impacts of autarky but also because it significantly increases the extent of their market [READ (2001)].

It should be pointed out that a high degree of openness could bring real benefits. These accrue from the fact that, potentially, consumers are able to obtain a greater variety of goods at lower costs and, simultaneously, producers are able to sell on the world market. However, and as a direct consequence of this greater openness, these economies become heavily exposed to events in global markets and to any developments in the global trade regime. Hence, and according to READ (2001), international trade cannot completely offset the adverse effects of small size.

Such a high degree of openness combined with an incapacity to react to external circumstances, due to the lack of market power and a narrow domestic base, leads to a limited capacity to manage the economic environment[46]. This state of affairs could be translated into a higher vulnerability to shocks, implying that even minor disruptions in world markets can have a large impact on these economies, as mentioned by HELLEINER (1982), the COMMONWEALTH SECRETARIAT (2000) and READ (2001).

[44] SUTTON (1998).
[45] EASTERLY and KRAAY (1999), pp. 14.
[46] Mentioned, for instance, by SUTTON (1998), BINGER (2002), BRIGUGLIO (1995).

Furthermore, small countries have less independence to set their macroeconomic policies and are more exposed to events and bigger countries' policies [STREETEN (1993)].

Small states also tend to be more dependent than large states on taxes on imports for their fiscal revenue[47] since the high volume of external trade provides a convenient, broad tax base at a relatively low administrative cost. The consequences of a reduction of average import tariffs imposed by the trade liberalisation can lead to a fall in tax revenues, not always easy to compensate in the short term, thus creating potential debt problems[48].

Despite all these characteristics, STREETEN (1993) suggests that smallness may be beneficial since these countries tend to grow faster and have higher productivity levels. Moreover, m*icrostates*[49] are considered to have, on average, "*higher income and productivity levels*". [EASTERLY and KRAAY (1999: 3)] However, their growth rates are much more volatile as they face a relatively higher external exposure.

2.1.4. Income Volatility

A significant portion of the growth rate volatility experienced by small sates can be attributed to instability in their terms of trade. It is related to the fact that the share of trade in GDP is larger in small states and to the fact that small states' exports are likely to be more specialised both in terms of products exported and in terms of export markets. However, EASTERLY and KRAAY (1999) point out that the greater volatility in the terms of trade of many small states is not due to the fact that their international trade is more specialised but because they have large unavoidable trade volumes.

Nonetheless, it is equally important to take into consideration other factors that affect this phenomenon. Even after controlling for terms of trade volatility, growth rates in small states are significantly more volatile than in other states. This higher volatility does not lead, according to EASTERLY and KRAAY (1999) to lower average growth

[47] Some open small states derive as much as 60% of their revenues from taxes on external trade, compared to an average of 21% for large developing countries.
[48] COMMONWEALTH SECRETARIAT (2000), pp. 14.
[49] Population under 1 million.

rates suggesting that there are compensatory mechanisms [BRÄUTIGAN and WOOLCOCK (2001)].

EASTERLY and KRAAY (1999) defend that the additional vulnerability present in small states is probably related to the fact that these countries are located in areas prone to environmental disasters. The authors also comment on the possibility of the results being inflated due to difficulties in measuring per capita incomes as the statistical institutions in these countries are, on average, weaker.

Nonetheless, the above-mentioned authors, conclude that income volatility is also considered to be a specific characteristic of small states by the COMMONWEALTH SECRETARIAT (2000). More specifically, it is considered to be a reflection of the high levels of exports and imports, the low diversification in production and trade and their susceptibility to natural disasters, a result of their small size.

2.1.5. Limited Institutional Capacity: The Public and Private Sectors

Researchers have noted that there are several differences in the way small and large states are governed and the type of institutions they have.

The COMMONWEALTH SECRETARIAT (2000) summarises the institutional characteristics of many small states as: small staffing for multiple functions, limited financial resources, lack of training, poor working environments, lack of alternative opportunities outside the public sector and insufficient institutional capacity in the public sector with consequences in the level of participation in international finance and trade negotiations, notwithstanding the fact that its outcomes can profoundly affect their economies.

According to KATZENSTEIN (1985)[50], size affects both economic openness and the characteristics of the political regime. Hence, in small countries, political centralisation tends to be greater and political arrangements tend to be more closely knit. It is, however, possible that this situation can lead to higher levels of corruption in these countries. For instance, FARRUGIA (1993) argues that small states may not necessarily involve corruption. Instead, size will have a moderate impact on policies.

[50] KATZENSTEIN, Peter J. (1985), "Small States in World Markets: Industrial Policy in Europe." *Cornell University Press*, Ithaca. Quoted in BRÄUTIGAN and WOOLCOCK (2001).

In general, small states have proportionately larger governments, and this may be due to the fact that small countries have few economies of scale, which raises the price of providing public services. This position is supported by the COMMONWEALTH SECRETARIAT (2000), considering that the public sector of small states faces diseconomies of scale and tends to be relatively larger than in other developing countries[51]. This situation reduces the efficiency of the resources and diminishes the productivity of investments. However, problems related to collective action are solved more easily since free riding is more visible [COLLIER and DOLLAR (1999)].

The economies of scale argument regarding the public sector is challenged by studies[52] that do not find a productivity disadvantage due to increasing returns of scale in the economy. Larger public sectors can also be explained by the fact that these economies have more open economies and therefore need extra spending to cushion their citizens from the impact of greater volatility and the risks associated to greater flexibility [CAMERON (1978)[53] and RODRIK (1998)]. Additionally, STREETEN (1993) argues that these larger public sectors may be behind the seemingly superior ability of small states to adjust to external shocks.

Although addressing the impact of volatility requires a capable state, small states may have a weaker state capacity, a situation that is probably related to the special problems faced by small states. In fact, the COMMONWEALTH SECRETARIAT (2000) considers that weaknesses in both the public and private sector are a key problem for most developing countries and that small states face further challenges related to their size such as diseconomies of scale.

On what concerns the private sector capacity, most firms are not attractive business partners and cannot spend significant funds on marketing, market intelligence and research and development, being unable to foster a competitive advantage. Furthermore, firms in these countries tend to be monopolies or oligopolies with implications in the benefits from competition and in the necessity to regulate monopolies, a *quasi*-impossible task taking in consideration the means existent.

[51] The median wage bill of the public sector as a proportion of GDP is 31% in small developing countries and 21% in large developing countries.

[52] Namely the study by EASTERLY and KRAAY (1999).

[53] CAMERON, David R. (1978), "The Expansion of the Public Economy: A Comparative Analysis". *The American Political Science Review*, Volume 72 (4): 1243-1261. In BRÄUTIGAN and WOOLCOCK (2001).

Another problem, which derives from a limited private sector capacity, is the inadequate absorptive capacity of small states in terms of aid and investment. In fact, the private sector lacks the necessary skills to generate innovative project ideas capable of attracting attention. A weak private sector may also lack the capacity to adjust to lower tariff protection and greater competition without transitional assistance.
Lately, small states have been identified as facing threats to their security. Although the 11th September 2001 lead to higher concerns, authors such as SUTTON (1998), had already mentioned that threats to security, caused by drug trafficking and money laundering, for example, have developmental impacts, particularly in what concerns their social cohesion, financial viability and integrity.

2.1.6. Social Indicators and Aid Related Features

Notwithstanding, all the above-mentioned characteristics that seem to place small states in a very delicate position, these countries seem to be more equal, "*indicating greater social cohesion*" [STREETEN (1993:199)]. BLAZIC-METZNER and HUGHES (1982) consider that small countries are likely to show greater socio-cultural homogeneity and a more equitable distribution of income, reducing the potential for social conflicts.
These states also present better performance in what concerns infant mortality, education and life expectancy at birth [EASTERLY and KRAAY (1999)]. However, a study commissioned by the Commonwealth Secretariat[54] concluded that small states, with a population under 1.5 million people, seem to have higher poverty and inequality.
STREETEN (1993) argues that transaction costs are lower and principle agent problems fewer due to greater ease of supervision, and experience an "*internalisation of external diseconomies*[55]". The author also states that, although these countries are more vulnerable to the risks of natural disasters and trade instability, they are more flexible and resilient.

[54] COMMONWEALTH SECRETARIAT (2000).
[55] Since a group tends to refrain from actions that harm others as this harm will be more visible [STREETEN (1993: 200)].

Small countries receive larger amounts of foreign aid[56] when compared to other countries and many economies present dependence on foreign resource flows[57]. COLLIER and DOLLAR (1999) examine the relationships among policies, growth and aid in small states and conclude that when poverty levels and population are controlled, small states[58] receive, on average, more aid. However, this above average aid seems to be used to compensate the risk perceived by investors[59].

The COMMONWEALTH SECRETARIAT (2000) also considers that the access to external capital is a possible way to compensate adverse shocks and income volatility, therefore explaining its greater amount in small countries. However, the Secretariat also adverts for the dangers that accrue from heavy indebtedness.

2.2. On the Issues of Aid and Foreign Direct Investment

According to the report Assessing Aid[60], financial aid has had an impact on growth, poverty reduction and improvements in social indicators in the developing world provided there is a good economic policy and the necessary institutions are in place.

COLLIER and DOLLAR (1999) concluded that the impact of a given allocation of foreign aid will depend on how poor a country is and on the quality of its policies. Furthermore, the authors assert that as small states have, on average, the same growth rates and the same quality of policies as larger states, the impact of aid on growth will be the same for small and large developing countries and will depend on the quality of policies.

However, COLLIER and DOLLAR (1999) also establish that the allocation of aid, after controlling for poverty and population, pays little attention to policy. In fact, the authors state that, small and large states differ on what concerns allocation rules of aid. In large states, aid declines as one moves from mediocre to good policy, whereas, for small countries there isn't a clear relationship between the variables and aid per capita tends to be larger on average for these countries. Although investors have great

[56] According to STREETEN (1993) small countries are affected by the "small county effect" according to which aid per capita increases and the terms of aid improve as the size of the country declines.
[57] According to TISDELLL (1993), SUTTON (1998) and HAITINK (1998).
[58] Population under 5 million.
[59] For further details see Section 2.2.
[60] WORLD BANK (1998).

consideration for the importance of human rights and anti-corruption matters, they seem to be indifferent to the quality of the institutions in small states.

Foreign aid flows are allocated primarily to small, poor, slow-growing, high-trade economies. Even though they allocate aid to more democratic countries, these are not necessarily those with strong rule of law, less corruption or higher-quality public institutions. In fact, for some authors, it can be said that "*aid donors seem to actively seek bad institutional environment*" [BRÄUTIGAN and WOOLCOCK (2001: 12)].

According to the COMMONWEALTH SECRETARIAT (2000) the current declining aid trend particularly affects small countries. However, authors such as COLLIER and DOLLAR (1999) consider that this decline in aid was concentrated exclusively in large countries as small states experienced a modest increase in aid and, on average, receive around 1% of PPP GDP more than larger states.

The reasons why donors continue to finance countries with weak policies vary. For instance, donors may be pursuing alternative objectives other than poverty reduction such as maintaining ties to former colonies or supporting their strategic interests. Furthermore, donors hope that aid will eventually induce policy reform.

Nonetheless, BRÄUTIGAN and WOOLCOCK (2001) point out to the necessity of aid being seen as having an auxiliary role in relation to policy reform, consolidating these movements that should be largely determined by domestic institutions and policies. Moreover, donors tend to reduce their aid to poor countries that have reformed because they believe such countries will attract private foreign investment.

On what concerns the statement that private foreign investment is a direct substitute for aid, it should be said that it is not clear that it might happen. In reality, small countries have difficulties in attracting FDI due to a higher perceived risk. Even after controlling for the level of risk and human capital, poor countries tend to be discriminated against. With the same policies and human capital, small states are perceived to be 28% more risky, with high statistical significance[61], a situation that results in higher interest rates and limited access to this source of financing.

Although there are no major differences in the cost of monitoring the capacity to repay of small and large countries, there are large differences in absolute size of the

[61] According to COLLIER and DOLLAR (1999: 16).

underlying financial transaction, making lending to small countries less attractive. Furthermore, private markets also take into account the greater vulnerability and volatility of small states' incomes [COMMONWEALTH SECRETARIAT (2000)].

COLLIER and DOLLAR (1999) stress that aid is essential because it can help to overcome this discrimination, by offsetting the greater perceived riskness of small states, but only in presence of good sound economic policies. However, and according to KAKAZU (1994), the more Official Development Aid (ODA) is made available, the less capacity the islanders have to save. Therefore, it is important to analyse this trade off and to carefully plan accordingly for, as the author points out, ODA in itself does not save the islanders nor lead to a continued sustainable development of the islands.

2.3. The Effects of Size on Growth and Development

LLOYD and SUNDRUM (1982) believe that country size may be a major or, at least, significant determinant of inter-country differences on what concerns economic performance. In fact, despite changing perceptions of what constitutes a "small" economy, the hypothesis that such countries are handicapped in development persists [BLAZIC-METZNER and HUGHES (1982)].

READ (2001) asserts that inferences derived from economic theory suggest that small states encounter significant additional challenges in their growth processes because of their small size. Therefore, small state's economic structure is adversely affected by their difficulty in achieving sufficient economies of scale in a wide range of basic economic activities. The author concludes that small states can be expected to have a lower long-run trend rate of growth than larger states and a greater short-run volatility around this trend.

Hence, and according to the imperfect market approach, small size is viewed as impeding the growth process since it renders small states sub-optimal in economic terms [ARMSTRONG and READ (1995: 1230)].

Implicitly, small size is expected to constitute a disadvantage and therefore to have an adverse impact on the economic performance of small states[62]. The significance of the impact of scale economies, indivisibilities, efficiency, competitiveness and diseconomies of scope, on the potential of small economies to generate a "critical mass" in domestic economic activity is highlighted by STREETEN (1996)[63].

CALDWELL *et al.* (1980) consider that small states are more developed than other developing countries but lack economies of scale to become established industrial powers. Furthermore, BHADURI *et al.* (1982) demonstrate that even with moderate increasing returns to scale, a small population size may act as a fundamental obstacle in sustaining growth in labour productivity in a small country[64].

Additionally, the growth and development of small states incur higher costs and risks because of their size, which can only be partially offset by appropriate endogenous strategies [UNCTAD (1988)[65]]. In a recent study[66], the WTO concluded that smallness, when combined with remoteness, imply higher unit costs and hence a limited competitiveness in a large range of sectors, particularly on what concerns exports. Consequently, the global reposition of small economies is considered to be more difficult to achieve.

As a consequence of small size, these countries will have a limited ability to influence domestic prices, a situation that combined with other factors already mentioned results in a high exposure to international economic conditions.

Another consequence of small size is the impartiality and inefficiency of the civil service combined with problems related to indivisibilities and the inability to exploit economies of scale in the public sector, in areas such as education and health.

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[62] In fact, according to KUZNETS (1960), small countries are under a great handicap in the task of economic growth.

[63] STREETEN, P. (1996), "Why Small Countries Succeed?", paper presented at the Conference on the Effects of Economic Globalisation and Regional Integration on Small Countries, Nicosia, 4-6th September, mimeo. Quoted in READ (2001).

[64] The authors believe that this limitation imposes a double disadvantage since on one side a small country may not be able to sustain an international competitive position and on the other hand its domestic market is unlikely to grow rapidly due to continuous adverse terms of trade.

[65] UNCTAD (UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT) (1988), "Specific Problems of Island Developing Countries". *UNCTAD*, LDC/Misc/l7. Geneva. Quoted in READ (2001) and BRIGUGLIO (1998).

[66] WTO (WORLD TRADE ORGANISATION) (2003a), "The Influence of country Size on its Economy and External Trade", (WT/COMTD/SE/W/5). Geneva. Quoted in SALMON (2004).

Some authors mention the existence of a minimum threshold. For instance, LLOYD and SUNDRUM (1982) consider that, irrespectively of size, both government and economic administration require a certain minimum number of skilled personnel and fixed costs.

According to the general view of the literature[67], any potential advantages for small states conferred by their small size are greatly outweighed by their inherent disadvantages. Small states are, therefore, more likely to experience significant challenges in generating and sustaining economic growth relative to larger states.

MILNER and WESTAWAY (1993) consider that the influences of country size will differ over diverse time horizons. In the short term, the greater vulnerability of small countries to shocks may affect the economic structure, whereas, in the long run, size may hinder steady-state factor accumulation and technological process. In the medium term, growth is expected to be strongly affected by structural change and technological spillover effects.

It should however be noted that these hypothesis are not validated when the local market constraint is overcome with international trade. In this case, the authors conclude that growth may be invariant with size.

Other authors are more enthusiastic of the latter conclusion. For instance, SRINIVASAN (1986)[68] considers that smallness is neither a necessary nor sufficient condition for slow economic development and growth and STREETEN (1993) also argues that small may also be beautiful. Additionally, the WTO also concluded that smallness (*per se*) is not significant on growth and income[69].

Furthermore, EASTERLY and KRAAY (1999) conclude that, after controlling for a range of factors, small states grow no more slowly than larger states. This suggests that small size might not be a disadvantage after all and that there are no obvious scale effects related to population size for growth rates. These authors argue that small states have the same growth experience as other states having the same range of per capita

[67] See, for instance, READ (2001), pp. 17.

[68] SRINIVASAN, T. N. (1986), "The Costs and Benefits of Being a Small, Remote, Island, Landlocked or Ministate Economy". *World Bank Research Observer*, Volume 1 (2): 205-218. Quoted in EASTERLY and KRAAY (1999) and in READ (2001).

[69] WTO (WORLD TRADE ORGANISATION) (2003), "Small Economies: A Review Literature", (WT/COMTD/SE/W/4). Geneva. Quoted in SALMON (2004).

incomes as the rest of the world, being on average 50% richer than their regional neighbours[70].

Apparently, and according to EASTERLY and KRAAY (1999), small states do not suffer from any growth disadvantages due to their small size, since the negative effects of a high initial income[71] and its volatility are roughly offset by the positive effects of trade openness and better educational attainment.

COLLIER and DOLLAR (1999) also concluded that growth rates are uncorrelated with population and that the relationship between policy and growth is the same for small[72] and large countries, and, in both cases, statistically significant. Consequently, the specific components of a "good fiscal policy" for small and large countries may differ but the "basic recipe" for successful development will be the same for both small and large and the same policies that lead to long-term growth in large countries will "do as well" in small states[73].

However, although the empirical analysis of structural transformation conclude that, the role of country size is insignificant[74], after normalising for the level of development, these results do not rule out the existence of adverse effect of small size on growth. In fact, they lead to the conclusion that any such effects are insufficiently systematic to be significant.

Nevertheless, EASTERLY and KRAAY (1999) fail to find a clear growth advantage for small states mainly due to the fact that these countries are significantly richer and hence grow more slowly due to the conditional convergence effect. At the same time, these countries suffer from a significantly greater growth rate volatility, which negatively affects growth but, on the other hand, they are significantly more open to international trade, a situation that positively affects growth.

Interestingly, the positive growth effect of openness is 2.5 times larger than the negative growth effect of small states' greater output volatility [EASTERLY and

[70] EASTERLY and KRAAY (1999), pp. 4-5. These results do not appear to be sensitive to the population threshold of 1 million but include OECD countries that are small but are far from being considered developing, such as Liechtenstein. The authors advert for the necessity to keep in mind possible biases on their sample countries.

[71] That leads to lower growth rates due to the conditional convergence effect.

[72] The authors define a small state as one with population under 5 million. However, their conclusions, for a number of key results, are the same and statistically significant if a population of 1 or 2 million is used.

[73] COLLIER and DOLLAR (1999), pp. 6.

KRAAY (1999)]. These findings suggest that, although output volatility is one of the consequences of openness, the small states' greater openness is on balance with a positive factor for small states' growth. However, as the authors rightly mention, "*any other source of growth volatility that is not related to openness might still be detrimental to small states' growth performance*"[75].

2.3.1. Explaining the Growth of Small States

The growth rates of developing countries vary enormously. These differences have been sustained for a large period of time thus leading to a large discrepancy in terms of real per capita incomes and standards of living. The obvious question is, therefore, how to explain these widely differing growth performances between developing countries.

Originally, it was though that the key factor was the lack of savings and foreign exchange for investment, a situation that resulted in the two-gap model and was solved with foreign aid. The underlying thought was that foreign aid could help these countries to overcome the two gaps, since it would finance imports and investment in physical capital, the driving force of growth.

However, it became clear, in the 90's, that investment alone could not guarantee growth and emphasis shifted to incentives and to the underlying institutions and policies that promote growth. Efficient investment, human capital development and technical advances were encouraged and facilitated. It was concluded that a stable macroeconomic climate is crucial, since it provides a "*fertile environment for growth*"[76] and helps several small countries to achieve good economic results [BLAZIC-METZNER and HUGHES (1982)].

As pointed out in the previous section, the general inference from theory is that small states experience significant obstacles to their long-run economic growth performance because of their size. Therefore, the critical issue is to find out the extent to which small size adversely affects long-term economic growth.

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[74] For further information on this subject turn to READ (2001), pp. 19.
[75] EASTERLY and KRAAY (1999), pp. 9.
[76] COLE (1993), BINGER (2002), WITTER, BRIGUGLIO and BHUNGLAD (2002), and COMMONWEALTH SECRETARIAT (2000).

Evidence shows that many small states, both developed and developing, have achieved sustained economic growth and relatively high levels of per capita, in an apparent paradox[77], with small countries being among the most rapidly growing developing countries[78], implying that size is not an insuperable constraint on small states' growth.

It is clear, however, that sub-economic optimality, caused by the already mentioned characteristics, greatly inhibits the scope for output specialisation and domestic policy autonomy [READ (2001)].

In regards to the sectoral analysis, one concludes that growth success, measured in terms of per capita income, is associated with a rich natural resource base [KUZNETS (1960)] and a strong service sector, namely financial services and tourism. The presence of a significant agricultural sector is associated to a relatively poor growth performance[79].

The relative growth success of many small states requires further investigation of their growth strategies, particularly those related to the implementation of endogenous policies that partly offset the adverse effects of economic sub-optimality.

Explanations to the surprising growth performance of some small states, following the endogenous growth theory, focus on the critical role of several factors, namely openness to trade, sectoral specialisation in harmony with their narrow comparative advantage, location in a particular global region and the effective use of endogenous policies to promote growth including free-riding and rent-seeking in the international economy.

Furthermore, due to the fact that many small states have been relatively successful in securing sustained economic growth and increasing per capita incomes comparatively to other LDCs, some authors such as READ (2001) suggest that additional economic factors, such as design and effectiveness of policies to foster economic growth[80], play a critical role in the relative growth performance. As mentioned earlier, the economic

[77] See section 3.3.1 – Chapter 1, for a better insight on this paradox.

[78] BLAZIC-METZNER and HUGHES (1982), pp. 88. These authors show that during the period 1965-78 countries with populations of more than five million grew faster, as a group, than those with populations of five millions or less. However, the very small countries with less than one million experienced a higher rate of growth.

[79] For instance, STREETEN (1993) who considers that urban industry can grow much faster than agriculture.

[80] See, for instance, BLAZIC-METZNER and HUGHES (1982) and COLLIER and DOLLAR (1999).

performance of a country depends primary on its commitment to growth and on the appropriateness of the policy framework used to implement its growth strategy.

The role of non-economic factors in influencing the growth success of small states is also crucial. These include features such as social cohesion, human resource development, islandness, boarder geographical region or political sovereignty.

BLAZIC-METZNER and HUGHES (1982) consider that the determination of national economic strategies and policies is much likely to be reached with a relatively low population, since it depends on a national consensus at a social and political level. The same authors also suggest that larger countries present a greater scope for protectionist pressures, which often leads to higher costs, whereas, in a small country "*vested interest tend to be trade-orientated from as early stage of development*" [BLAZIC-METZNER and HUGHES (1982: 86)].

Another feature concerning small states' growth is related to structural transition. In developing countries, this type of transition is normally associated with a Lewis-type industrialisation. However, this path of development is not open to most small states because of their relative lack of labour and due to the unfeasibility of growth based upon large-scale expansion of a low cost labour-intensive industrial sector [LEWIS (1954)[81]]. Consequently, the sources of growth in small states, particularly in small developing states, do not conform to the orthodox model of industrialisation [DEMAS (1965)[82] and READ (2001)].

In small states, growth is more likely to be the outcome of higher value-added activities, which are intensive in their use of human and physical capital as well as skills [(BHADURI *et al.* (1982), STREETEN (1993)]. In fact, "*the structural necessity for small states to pursue highly open trade policies requires their export sectors to be internationally competitive and therefore founded upon sources of inherent comparative advantage*[83]". These include economic activities that are neither subject to increasing returns nor reliant upon the intensive use of low cost labour.

[81] LEWIS, W. A. (1954), "Growth and Development", *Oxford University Press*, Oxford. Quoted in READ (2001).
[82] See note 3.
[83] READ (2001), pp. 20.

This way, small states can be expected to specialise in producing goods and services which embody human and possibly financial capital, highlighting the critical role of human capital accumulation [READ (2001)] and its critical importance for long run economic results. Nevertheless, it is necessary to note that the provision of education is increasingly costly at higher levels of education, meaning that it might be more efficient to send students study abroad, a situation that might result in brain drain.

Furthermore, EASTERLY and KRAAY (1999) consider that the productive advantage of small states reflects, to some extent, their human capital differences from the rest of the world. Small states need to rely on imported technology and high quality human capital to compensate for their lack of natural resources[84] and use human capital-intensive exported services to overcome their smallness.

Another characteristic that might partially help to explain the achievements of small countries is, according to STREETEN (1993), the fact that small countries have a disproportionate voice in some international organisations were voting is not by population but by the "one country, one vote" rule.

The discussion of international political economy issues highlights the potentially strategic role for international free-riding and rent-seeking in the growth of small states. This is made possible by the policy autonomy of small states, which enables them to pursue specialised high value niche activities. Therefore, international political economy should be viewed as an integral part of the optimal policy portfolio available to small states[85].

In addition, small states are likely to be extremely sensitive to the impact of globalisation because of the interaction between their high degree of integration in the international economy and their inherent vulnerability. Although small states might be expected to be major beneficiaries of global trade liberalisation, their narrow specialisation and heavy export dependence makes them highly susceptible to adverse changes affecting specific categories of goods and services subject to protectionist pressures from both developed and developing countries [ARMSTRONG and READ (1998)].

[84] Although authors such as KUZNETS (1960) define availability of natural resources as a small state's characteristic.
[85] READ (2001), pp. 26.

The process of globalisation has accelerated the creation of an international playing field based upon comparative advantages and real competitiveness. It will be increasingly difficult for small developing countries to foster similar successful growth strategies in such an environment.

3. The Vulnerabilities of Small States and the Construction of an Index

3.1. The Concept of Vulnerability

The term *vulnerability* refers to the "*proneness to damage from external forces*", forces that are beyond the control of countries and are, therefore, exogenous to the economic policies [WITTER, BRIGUGLIO and BHUNGLAD (2002)]. Small states are, therefore, more vulnerable to external economic, strategic and environmental events, over which they have little control [HOLMES (1976)[86], BRIGUGLIO (1995) and BINGER (2002)].

This definition has given rise, according to READ (2001), to the Vulnerability Hypothesis. This hypothesis implies that the long run path of small states is subject to disproportionately greater instability than larger states, but with fewer resources to moderate the impact.

The complex nature of vulnerability has also given rise to the Vulnerability Theory, which identifies aspects of economic, environmental and social vulnerability.

Other definitions include that by GUILLAUMONT (1999) who defines vulnerability as the risk of being harmed and negatively affected by unforeseen events, generally called shocks. It should be noted that such a risk is dependent on the frequency and intensity of events that may adversely affect SIDS.

SPRINGER, GIBBONS and BIKENIBEU (2002) define vulnerability as an aggregate measure to risk and its resulting consequences, while READ (2001) considers that small states face a greater exposure to exogenous shocks than larger states due to their

[86] HOLMES, F. (1976), "Development problems of small countries" in Castle L.V. and Holmes F. (ed.) (1976), *Cooperation and Development in the Asia Pacific Region: Relations Between large and Small Countries.* Japan Research Centre, Tokyo pp 39-47. Quoted in READ (2001).

characteristics. The author concludes that "*vulnerability can therefore be regarded as an additional structural characteristic of small states*[87]".

Different authors make several distinctions regarding vulnerability. For instance, GUILLAUMONT (1999) distinguishes between *static and dynamic vulnerability*. While the first concept is linked to immediate losses of welfare resulting from shocks related to the instability of income, dynamic vulnerability is a notion associated to possible effects of the shocks on growth, development and poverty reduction. Moreover, the author considers that the international debate about vulnerability implicitly refers to the more dynamic concept.

Additionally, the author makes a distinction between *exogenous and endogenous vulnerability*. Shocks generated by political instability are sources of endogenous vulnerability, whereas other sources, namely environmental shocks and other external trade and exchange related shocks (slumps in external demand, world commodity instability and international fluctuations in interest rates), are more exogenous and therefore more difficult to overcome.

Moreover, the distinction between *structural vulnerability*, which results from factors that are durably independent from the political will of countries and the *conjectural vulnerability* deriving from economic policy that results from choices made in a recent past, is essential for the construction of a vulnerability index. According to GUILLAUMONT (1999), this index should only be used to measure structural vulnerability, composed of two elements: the extent of the shocks and the exposure to such shocks.

The above distinction can also be identified as *intrinsic and extrinsic resilience* [KALY *et al*. (2002a)]. Intrinsic resilience refers to the innate characteristics of a country to cope with natural and anthropogenic hazards and would be related to structural resilience, while, on the other hand, extrinsic resilience, which results from external forces, would be intimately related to conjectural vulnerability.

Further distinctions can be made between economic, environmental and social vulnerability, which are the three main component of vulnerability. Below we will

[87] READ (2001), pp. 26.

describe the situation in relation to small states. Comments on SIDS' vulnerabilities will be made on Section 1 of Chapter 2.

3.1.1. Economic Vulnerability

BINGER (2002) describes economic vulnerability as the risks faced by economies from exogenous shocks to the systems of production, distribution and consumption. According to this author, it essentially arises from the high exposure of small states to external economic conditions that tend to lead to serious instability.

In other words, it can be said that this type of vulnerability is a result of small states' high degree of openness and import dependence, which tend to amplify any external shocks[88]. These and other characteristics of small states were described in Section 2.1 of this Chapter.

Furthermore, small states are especially prone to the destabilising effects of external shocks because of their dependence upon external sources of growth[89].

3.1.2. Environmental Vulnerability

This type of vulnerability is associated with the risk of damage to a country's natural ecosystem, a situation that diminishes the capacity of the environment to meet domestic needs [BINGER (2002)].

Small states face a wide range of environmental risks such as natural disasters, vulnerability to sea-level rise, marine pollution, ecological fragility and unsustainable resource use [SUTTON (1998)]. According to KALY *et al.* (2002a), risks to the natural environment include any events or processes that can cause damage and can be either natural or human events and processes.

Although it has been suggested that natural hazards should not be included in the discussions since they are "normal", the frequency and intensity of natural disturbances cannot be separated from the effects of the human activities and need to be incorporated on the concept of environmental vulnerability. Therefore, both natural

[88] HOLMES (1976). See note 86.
[89] READ (2001), pp. 26.

and human hazards affect the environment in interactive ways implying an integrated approach in the analysis of SIDS' vulnerability [KALY *et al.* (2002a)].

Additionally, global developments pose major environmental challenges for small states, a situation made even more serious by the fragility of some of these ecosystems. In fact, global climatic change has increased the incidence and severity of natural disasters and the effects of sea-level rise are estimated to be disproportionately more severe for small states than for larger countries [COMMONWEALTH SECRETARIAT (2000)].

3.1.3. Social Vulnerability

Social vulnerability is defined by SPRINGER *et al.* (2002) in terms of the extent to which the social structure of a community or a society is exposed to shock or stress brought about by economic strife, environmental changes, government policies or internal events and forces resulting from a combination of factors.

BINGER (2002) considers that social vulnerability "*reflects the degree in which societies or socio-economic groups of people are affected negatively by stresses and hazards, whether brought about by external forces or intrinsic factors, that negatively impact on the social cohesion of a country*"[90].

The same author stresses that social vulnerability, which is influenced to a certain degree by economic conditions, is increasingly becoming influenced by environmental conditions. Additionally, social conditions will also have effects on economic and environmental conditions, a situation that generates a cycle that might become vicious and unbreakable.

This vulnerability can be said to be characterised by increasing growth of criminal activities, growing rates of HIV/AIDS, increasing rates of school drop outs, declining age of prison population, declining public health, deterioration of public infrastructure and the migration of skilled professionals, the so called "brain drain" [BINGER (2002)].

[90] BINGER (2002), pp. 53.

HEZEL *et al.* (1997)[91] considers that social vulnerability is crucial since vulnerability, as a whole, cannot be adequately addressed without giving serious attention to socio-cultural changes. According to the author, the institutions that will be responsible for implementing proposed changes are important in their own right, since they are key factors in carrying out any economic policies endorsed by the government and, hence, are crucial to the achievement of sustainable development in each state.

ST BERNARD (2002)[92] also focuses on internal factors, namely those related to education, health, resource allocation and communication. However, external factors also feature in the discussion, particularly with reference to the globalisation process, and its impact on domestic employment.

ECLAC (2000)[93] highlights the increased precariousness of the job market as a major source of social vulnerability, since it results in insecure income, no contract and no social security. Other causes mentioned include the decrease in state intervention in some important social areas, changes in traditional social organisation such as unions, as well as difficulties facing small companies.

Furthermore, as mentioned in section 2.1., social vulnerability is portrayed as endogenous vulnerability, with more emphasis on internal factors and resulting from domestic policies. According to BRIGUGLIO (2003), social vulnerability is related to nurtured social resilience, seeing that the factors that affect it are internally generated. Consequently, policies that encourage the alleviation of poverty could enhance social resilience in relation to economic and environmental vulnerability.

3.2. The Impact of Vulnerability on Growth

The exposure of any economy to external shocks has a long-run growth path and increases instability around the underlying average trend rate of growth [READ (2001)].

[91] HEZEL, F.X., EDWIN, S.J., PETTEYS, Q.P. and CHANG, D. (1997) "Sustainable Development in the Federated States of Micronesia" Report prepared for the United Nations Development Programme in Pohnpei Micronesian Seminar. Quoted in SPRINGER, GIBBONS and BIKENIBEU (2002).

[92] ST. BERNARD, G. (2002), "Towards the Construction of a Social Vulnerability Index – Some Theoretical and Methodological Considerations" *University of the West Indies*, St Augustin Campus. Quoted by BRIGUGLIO (2003).

[93] ECLAC (ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN) (2002), *Social Panorama of Latin America, 1999-2000.* Quoted in BRIGUGLIO (2003).

In fact, the key premise of the Vulnerability Hypothesis, explained in Section 3.1. of this Chapter, is that the long-run growth of small states is adversely affected by their greater exposure to exogenous shocks, compounded by the lack of resources to fully cope with the impact of this volatility. In this sense, even relatively wealthy small states, expected to better manage such volatility in their growth rates, may be exposed to much greater instability because of their greater dependence upon trade.

However, the vulnerability is found to be positive and significantly related to growth for a limited number of small states when the *Briguglio's vulnerability index*[94] is taken into consideration These results are divergent to expectations formulated by ARMSTRONG and READ (1998a)[95]. This apparent paradoxical growth result[96] provides further support for the beneficial role of openness in growth[97]. Nonetheless, small states are likely to experience lower long run average growth rates and greater amplitudes of fluctuation than larger states[98].

Furthermore, it should be noted that export instability, considered to be a clear characteristic of vulnerability, has a negative effect on growth. Additionally, GUILLAUMONT (1999) concludes that vulnerability weakens policy, by making use of a macro policy index to test if economic vulnerability is linked to government behaviour. This conclusion has implications on the measurement of a country's performance, which will need to be adjusted to the impact of the exogenous factors and their consequent impact on policy.

Besides its negative effects on growth, vulnerability is assumed to increase aid effectiveness. In other words, the more the recipient country is vulnerable, the more aid contributes to growth, with consequences on aid allocation and aid design. Therefore, the more vulnerable the recipient country, the higher the marginal contribution of aid to growth [GUILLAUMONT (1999)].

[94] This index will be described in section 3.4.2. of this Chapter.

[95] ARMSTRONG, H. R. and READ, R. (1998a), "The Phantom of Liberty: Economic Growth and the Vulnerability of Micro-States". Paper presented at the CRIE Regional Block Formation and LDC Trade Conference. Middlesex University, 9th July. Quoted in READ (2001).

[96] See Section 3.3.1. of this Chapter for more information on the Singapore Paradox.

[97] READ (2001) considers that the impact of vulnerability itself remains to be satisfactorily verified due to methodological difficulties that imply a lack of adequate quantification of vulnerability.

[98] READ (2001), pp. 29.

Consequently, aid must be allocated according to the vulnerability of the country as to compensate for the loss of welfare and to maximise its effects on growth, since aid is more efficient in vulnerable countries. It is thus necessary to design aid allocation criteria that combine incentives to policy improvements and the increase of aid effectiveness as a function of vulnerability. Aid should be designed to lessen vulnerability through the enhancement of the capacity of the countries to manage the shocks faced.

3.3. Vulnerability, Resilience, Poverty and Economic Backwardness

BRIGUGLIO (2003) regards resilience as the ability of an affected subject to recover from a damaging impact. It is also associated to the coping ability of an affected subject, and regarding climate change it implies adaptation. BINGER (2002) considers resilience as the lack of capacity to respond to risks or hazards. According to this author, because of their size, small states have limited human and environmental resources and, therefore, limited capacity to absorb shocks.

Thus, resilience can be seen as the inverse of vulnerability. While small countries are considered, to be more vulnerable than other developing countries, it is also true to say that they are less resilient than other developing countries.

Resilience may be inherent – in the sense that inherently resilient countries should register low vulnerability scores – or nurtured – a result of a deliberate policy that is developed and managed.

It is important to note that vulnerability differs from poverty or economic backwardness. In fact, a number of small countries such as Singapore, Cyprus or Malta, which score well in terms of economic vulnerability, present high incomes per capita, although one could be discordant with the introduction of these countries in the developing group.

Nevertheless, as WITTER, BRIGUGLIO and BHUNGLAD (2002) point out, it can be argued that economic backwardness is associated with limited ability to manage or mitigate vulnerability and, therefore, enhance resilience. This results in the use of GDP per capita as an indicator of resilience.

3.3.1. The Singapore Paradox

Generally speaking, SIDS do not fare badly both in terms of per capita GDP and in terms of the UNDP's Human Development Index. The latter tend to be, on average, higher than those of other developing countries, a situation that has driven some observers to argue that smallness and insularity is not a drawback after all.

However, these countries present many economic fragilities that are translated into high vulnerability indexes, an assertion that was converted into the *"Singapore contradiction" or "Singapore Paradox"* by Lino Briguglio. Thus, although smallness has its advantages, among which a high degree of flexibility, one should consider that such success stories were "*achieved in spite of and not because of their size and insularity*[99]".

When we consider the distinction between inherent and nurtured resilience, it can be said that a small state that is inherently economically vulnerable can manage to cope with vulnerability using deliberate economic development policies that promote the "*ability to cope*"[100].

It should also be noted that the relative high growth rates experienced during the eighties by some of the SIDS give a misleading picture of the strength of their economies. In fact, in many instances, the growth pattern of such countries has been unstable and erratic.

Furthermore, one should keep in mind that even though the main development partners increasingly accept the concept of "vulnerability", it is difficult to concentrate international attention on small states and on SIDS in particular because of their higher levels of income vis-à-vis the developing countries' group.

3.4. The Construction of a Vulnerability Index

Many SIDS exhibit relatively high GNP per capita due to preferential access to markets of developed countries. This situation leads to better results than expected from countries facing the constraints associated to small size and limited resources. A

[99] WITTER, BRIGUGLIO and BHUNGLAD (2002), pp. 21.
[100] BRIGUGLIO (2003), pp. 5.

valid question is, therefore, whether the use of poverty indicators is fair to small countries.

In fact, although preferential access has been beneficial to SIDS, such states tend to be economically vulnerable and the end of such facilities, due to the incapacity of the international community to apprehend these specificities, will have negative results[101]. The Indexes and especially the economic vulnerability index intend to be useful in this respect, helping to target international cooperation to specific situations.

3.4.1. How the Idea Evolved

The construction of a vulnerability index was formally proposed by the Maltese Ambassador to the United Nations during the New York meeting of Government Experts of Island Developing Countries and Donor Countries and Organisations, held under the auspices of UNCTAD. The issue was again raised and discussed at some length during the International Conference on Islands and Small States, held in Malta on 23-25 May 1991. In its final statement, the conference concluded for the necessity to construct a Vulnerability Index capable of overcoming the problems related to GDP as an index and capable of accounting for the special problems of small states.

In 1992, UNCTAD prepared a paper on the construction of a Vulnerability Index, which was one of the main documents discussed during a meeting of a Group of Experts on Island Developing Countries, held in Geneva on 14-15 July 1992. Since then, various attempts have been made to construct a vulnerability index[102].

The need to construct a Vulnerability Index was also recognised during the Global Conference on the Sustainable Development of Small Island Developing States, held in Barbados in April/May 1994. In fact, the Programme of Action of this conference contained a section (paragraphs 113 and 114) recommending the construction of a Vulnerability Index.

[101] See Table 3 and Table 4 for a better outlook into this question.

[102] The first work issued in the public domain was BRIGUGLIO, L. (1992) *Preliminary Study on the Construction of an Index for Ranking Countries according to their Economic Vulnerability* UNCTAD/LDC/Misc.4. A development on this work was produced by BRIGUGLIO, L. (1993) The Economic Vulnerabilities of Small Island Developing States," background paper for the CARICOM Regional Technical Meeting in preparation for the Global Conference on the Sustainable Development of Small Island Developing States, Port of Spain. Other works on the same subject are BRIGUGLIO (1995); (1997) or CHANDER (1996).

Nonetheless, the UN has not as yet formally adopted a specific vulnerability index, and the General Assembly will probably decide that further studies will have to be undertaken before a specific index is adopted.

3.4.2. An Overview of the Economic Vulnerability Index

The main objective of the economic vulnerability index is to highlight the fact that economic success of many small states often hides an underlying fragility.

The economic vulnerability indexes proposed by different authors[103] are generally composite ones and consist of few components, generally not exceeding five. The approach consists of an average of sub-indexes considered to be representative of the specific characteristics of SIDS in terms of economic vulnerability.

GDP related variables are not included in the index since it is meant to argue that a country is economically vulnerable independently of its stage of development. BRIGUGLIO (1995) considers that the index's objective is to measure economic fragility in the face of external forces and not to assess economic performance.

Environmental variables were also excluded since the index is related to economic vulnerability. However the authors stress that this oversight "*is not an admission that environment fragility is not important"* and that the study of this variables is essential for the sustainable development of SIDS [BRIGUGLIO (1995)].

This index aspires to be simple, easily comprehended and suitable for international comparison. The principal variables tend to be related to inherent conditions that expose the economy to external conditions and normally include export and imports as a ratio of GDP as a variable for trade/economic openness, a variable for Export concentration or transport and freight costs in relation to foreign trade as variable of Peripherality. Energy dependence, characterised by imported energy as a ratio of energy consumed and financial dependence, depicted by aid or international debt as a ratio of GDP, are also usually included.

However, the UN-CDP (2000) does not include an economic openness component. In fact, it is considered that the size variable indirectly captures the degree of openness, as there is a close correlation between country size and economic openness and,

simultaneously, due to the fact that it can be argued that a high dependence on foreign trade is a strength and not a disadvantage.

One must note that the UN-CDP index intention is the identification of LDCs and hence it can't be freely applied to SIDS as it is *a priori* biased in favour of small states and cannot be used to show that small states are more vulnerable than larger ones. In fact, the UN-CDP index presents results that are out of the ordinary when compared to the values of the different indexes, namely Briguglio's and the Commonwealth Secretariat's EcVI[104].

Looking specifically at the Briguglio's EcVI[105], it is composed by five sub-indexes that include: economic openness, dependence on a narrow range of exports, dependence on strategic imports, peripherality, economic vulnerability and resilience.

The variable related to *economic openness* captures the degree to which a state is affected by international economic conditions. It is often measured by exports or imports, or an average of both, as a percentage of GDP.

The variable *dependence on strategic imports* is intended to measure the extent to which a country's livelihood depend on imports, namely on strategic imports such as energy, industrial supplies for production or food for consumption. Various indexes have been used for this purpose. For instance, average imports of commercial energy as a percentage of domestic energy production [BRIGUGLIO (1997) and ATKINS *et al.* (2000)] or dependence on food imports [BRIGUGLIO and GALEA (2003)].

Peripherality is a condition that is associated with insularity and remoteness and is translated into high transport costs and marginalisation. It, therefore, aggravates the problems associated with external dependence. However, the measurement of this variable poses some difficulty given the fact that the use of the variable "*number of kilometres from a main commercial centre, the nearest island or the nearest continent*" could be misleading. In fact, some islands maintain a high proportion of their international trade with their former colonising powers independently of distance.

[103] BRIGUGLIO (1995), CHANDER (1996), ATKINS *et al* (2000), UN-CDP (2000).
[104] Turn to Table 1 for a comprehensive outlook of these three EcVI.
[105] Table 2, in the annexes, presents the author's results for all the countries analysed.

Two of the variables used for its measurement are the ratio of FOB/CIF factors and the ratio of transport and freight costs to international trade in merchandise. The latter is the most used[106].

BRIGUGLIO and GALEA (2003) constructed an Economic Vulnerability Index Adjusted for Resilience, in which 50% of the weight is assigned to the vulnerability components and 50% to the resilience component (usually GDP per capita adjusted for PPP). This index helps to explain the "Singapore Paradox"[107] since inherently vulnerable countries using suitable policies have succeeded in strengthening their economic resilience and overcoming their vulnerability.

As the EcVI is a composite index, it is an average of three number of sub-indices that represent diverse dimensions of vulnerability and that are differently weighted. The hypothesis of a simple average used by the Physical Quality of Life Index[108] and the UNDP Human Development Index [UNDP (1991)] was considered but as "*different variables have a different impact"* on vulnerability, the use of different weights for each variable was decided. Nevertheless, the choice of the weights is a difficult and subjective one.

Two sets of arbitrary weights were experimented by the authors: an equally weighted one and one that assigns 50% to economic exposure, 40% to transport index and 10% to the disaster proneness index. The latter set of weights was chosen based on the assumption "*that economic exposure is the most important factor that renders a country economically vulnerable"* and that the disaster proneness index isn't *"an intrinsic economic constraint"* [BRIGUGLIO (1995)].

[106] See CHANDER (1996) and BRIGUGLIO (1995).
[107] See section 2.7.1. – Chapter 1.
[108] MORRIS, D. M. (1979), "Measuring the Conditions of the World's Poor." *Overseas Development Council.* Quoted in BRIGUGLIO (1998).

CHAPTER II

THE SMALL INSULAR DEVELOPING STATES: CHARACTERISTICS, VULNERABILITIES AND CHALLENGES

Throughout the first Chapter we introduced the differences between *Small States* and *Small Insular Developing States* (SIDS) and concentrated on the characteristics and vulnerabilities of the first group of countries. In this Chapter we will focused on the second group of countries.

We will introduce and analyse the specific vulnerabilities and characteristics of the Small Insular Developing States, keeping in mind that this analysis will be somewhat similar to that carried out in the first Chapter given the fact that, as mentioned earlier, these two groups of countries are very much alike.

Finally, we conclude with recommendations for enhancing resilience and overcoming vulnerability in these countries and comment on issues such as the Role of Institutions, Vulnerability and Trade or Opportunities and Challenges from Globalisation.

1. The Specific Characteristics and Vulnerabilities of Small Insular Developing States

In this Section we will describe the specific characteristics and vulnerabilities of SIDS. A note should be made to the fact that, although, at times, this Section appears to be a mere copy of previous sections, the intention was to mention only the specificities related to SIDS. Obviously, as SIDS are simultaneously small states and developing states, these characteristics will be equally present. The question is whether or not they possess additional characteristics that could turn them into a distinct group of countries and it is only those characteristics that we try to portray.

1.1. Small Developing Island Characteristics

BASS and DALAL-CLAYTON (1995) define "*small island state*" as an island state covering less than 1000 km^2 and with a population under one million.

To begin with, one must mention that SIDS share conditions of "underdevelopment" with other larger developing countries. Authors such as WITTER, BRIGUGLIO and BHUNGLAD (2002) consider that these include weak institutional capacities, human resource deficiencies, lack of investment finance or weak internal linkages. Similarly, as pointed out in Section 1.2. – Chapter 1, SIDS share a great number of characteristics with other small developing states.

Furthermore, although the geographical situation of small islands varies considerably, these states share a number of characteristics among themselves.

According to BASS and DALAL-CLAYTON (1995) the similar characteristics that SIDS share derive from the high exposure of island ecologies, economies and societies to external circumstances, and from their low capacities to adjust to these changing external circumstances, an idea also shared by KALY *et al* (2002a). The latter consider that inherent features of SIDS, which include natural as well as anthropogenic factors, lead to their special vulnerability.

In this sense, BRIGUGLIO (1995) classifies the disadvantages of SIDS under 5 different headings. These are: small size, remoteness and insularity, disaster proneness, environmental fragility and other factors.

Small size is a clear negative aspect of these islands and has clear economic effects. The author considers that small size has implications on the amount of natural resource endowments and results in a high import content as a percentage of GDP, creating a dependence on foreign exchange earnings. Small size will also result on a dependence on exports markets since the domestic market is small and, therefore, there is little ability to exploit economies of scale.

Domestic competition will also be thin[109] and their highly vulnerable production systems tend to be traditional "*subsistence affluence*"[110] structures since their

[109] It should be noted that these aspects have already been mentioned in Sections 2.1. and 3.1. of Chapter 1 and are obviously shared with the rest of small developing states.

remoteness acts as a barrier to the transmission of information relating to new technologies, products and market opportunities.

Other authors such as READ (2001) also identify the structural openness of trade as a consequence of small size. It is of particular importance to island and land-locked small countries that suffer from higher transport costs that affect their low-cost trade links with the international economy.

In fact, the economic sub-optimality of small states implies that nearly all goods and services are tradable at the margin. However, for remote and isolated small states, it may be less costly to produce certain tradable goods domestically rather than to rely upon imports. Nevertheless, the supply of some goods and services may not be feasible and small countries will tend to be less competitive internationally [STREETEN (1993) and READ (2001)].

On what concerns *remoteness and insularity*, these are two characteristics that when combined together give rise to problems associated to transport and communication, namely, high per unit costs in maritime transportation, uncertainties in supply and the deriving necessity to keep a high stock of goods, many of which may be unable to stock, with all its associated costs.

Environmental fragility is also a crucial characteristic of SIDS, since they have a unique and very fragile ecosystem intimately related and where impacts will affect the whole island. Furthermore it also contributes to global diversity. Their fragility results from the low level of resistance to external influences or, in other words, from the fact that these countries are *disaster prone*.

Additionally, SIDS environments are facing pressures arising from economic development, resulting in the fast depletion of agricultural land, in a high amount of waste, an increased demand for non-renewable resources as well as an intense use of the coastal areas for tourism and habitation. The existence of a high ratio of coastline to land area also leaves islands more vulnerable to marine and climate influences. Another key environmental problem faced by most SIDS is global warming and the rising sea-level, as well as erosion of land and soil.

[110] BASS and DALAL-CLAYTON (1995), pp 3. The authors believe that, in spite of SIDS' high exposure to external influences and their low capacities for adjustment, the presence of a traditional and/or community-based "subsistence affluence" systems of production may be sustainable in the face of many island constraints.

Other factors considered to be SIDS' disadvantages by BRIGUGLIO (1995) include a high dependence on foreign sources of finance and demographic factors. The latter include a small population and hence a limited pool of skills, high population densities that lead to high demands on resources, a wider dispersion of the population with effects on the mobility and communication and a higher propensity to emigrate that, in a large scale, may lead to brain and skill drains of human resources, very dear and very expensive to SIDS[111].

Further differences, between SIDS and other states[112], include the existence of private remittances, a higher life expectancy at birth, a lower than average population growth, as well as higher rates of literacy and political stability.

Many of the above characteristics, such as a small population, a narrow economic base or an inability to exploit economies of scale, are of course included in the specificities of small states, whereas others like geographic isolation or a high ratio of coastline to land area derive from their islandness. However, the effects of shared characteristics, such as a narrow economic base, tend to be exacerbated in more geographically isolated small states or islands, where costs, to a large extent, depend on transportation expenses.

1.2. The Vulnerabilities of SIDS

As pointed out in Section 3.1. – Chapter 1, and according to WITTER, BRIGUGLIO and BHUNGLAD (2002), the term *vulnerability* refers to the proneness to damage from external forces.

In the case of SIDS, this exposure to exterior harmful factors tends to have a relatively greater impact and, consequently, these states tend to be more affected than others. Its causes are the core of SIDS' problems and are the argument of our discussion.

For island, archipelago and land-locked small states this exposure to external shocks is compounded by their isolation and remoteness that lead to increases in transport and communication costs. These costs are not only affected by distance but also by

[111] These ideas are shared by most writers on this subject. See for instance, DOMMEN (1980a), BASS and DALAL-CLAYTON (1995) or KALY *et al.* (2002a).

[112] Note that these differences are not necessarily disadvantages but are merely SIDS' specificities.

diseconomies and indivisibilities in transport capacity and routings, as well as by supply uncertainty [READ (2001)].

In small islands economic, social and environmental changes are most likely to have a considerable impact on the whole country than in large land-based countries. This is do due to the fact that their economies tend to be based on a single or on a limited range of activities, their population is small but their density is high and the ecological impacts may be felt across the island given the country's short distances.

BINGER (2002) considers that *"the concept of vulnerability provides a unique framework that addresses the similarity and diversity of SIDS"*[113], hence providing a new reference structure to help decision-makers monitor the outcome of policy interventions. This concept is the equivalent of risk management in the private sector, and its objective is to help the international community improve its efficiency and effectiveness in what concerns the delivery of aid in a scenery of decreasing aid resources.

It should be noted that what differentiates SIDS from other developing countries is not the existence of a given type of vulnerability but, as BINGER (2002) points out, the fact that these countries have inadequate ability to act in response. Consequently, many of the vulnerabilities described in Section 3.1. – Chapter 1 are present again in the following sections. Therefore, risking the possibility of repeating some characteristics, the discussion tries to focus primarily on specific features of SIDS.

1.2.1. Economic Vulnerabilities

On what concerns economic vulnerability, WITTER, BRIGUGLIO and BHUNGLAD (2002: 3) define this concept as the proneness to damage to the economy caused by external forces, and consider that in certain circumstances it could threaten the economic viability of SIDS.

BASS and DALAL-CLAYTON (1995) present an excellent summary of the vulnerabilities of Small Island Economies. They conclude that small island economies tend to be narrowly based and highly exposed to external economic and political influences. Although these small island states seek autonomy, they have only been

able to develop through interaction with larger economies. This external dependence implies that these countries import inflation, exchange rates are beyond their control and are frequently pegged to the dominant trading partner's currency.

As price-takers, small islands also become "*chronic takers of technology, infrastructure, resource-allocating institutions, trade patterns – in brief all of the strategic decisions that circumscribe their viability are externalised*"[114]. Moreover, islands need to diversify and yet they have inadequate manpower and resources to do so. In fact, small islands suffer many constraints in tackling unsustainable development, since, currently, there are few imperatives to address the problem.

Island manpower and skills are inadequate to handle the problems of unsustainability. The public sector plays a disproportionate role in the economies of island nation-states and the priority is currently to reduce the proportion of the labour force. Moreover, most island professionals will have been trained outside the region and, therefore, will apply approaches developed for large continental areas, not always appropriate and country specific.

Additionally, the immediately available funding to deal with unsustainability has been low. It is not possible to raise funding from external trading partners that are not "captive" to the island specificities, and nor are local resources adequate.

Nonetheless, islands tend to receive a high proportion of aid. This can be seen as a reflection of their dependency. CAREW-REID (1989)[115], although referring mainly to the South Pacific, notes that foreign aid is a major influence in setting the pace and direction of development and that foreign aid supports development, which, in turn, triggers unexpected changes in social and natural systems. These changes will possibly require further aid treatment, and potentially cause aid dependency.

According to BASS and DALAL-CLAYTON (1995), the exception to the general rule of economic dependence occurs if countries can raise enough capital to seize location

[113] BINGER (2002), pp. 51.

[114] MCELROY, J., POTTER, B., and TOWLE, E. L. (1986), "Challenges for Sustainable Development in Small Caribbean Islands". Paper presented at Interoceanic Workshop on Sustainable Development and Environmental Management of Small Islands, 3-7 November 1986. Puerto Rico. Quoted by BASS and DALAL-CLAYTON (1995).

[115] CAREW-REID, J. (1989), "Environment, Aid and Regionalism in the South Pacific". Pacific Research Monograph n° 22. *National Centre for Development Studies. The Australian National University*. Canberra. In BASS and DALAL-CLAYTON (1995).

advantages, for instance, as Singapore did in the 1960s. However, scale and locational attributes are not permanent parameters but may change with new technology.

1.2.2. Environmental Vulnerabilities

In regards to environmental vulnerability, it should be said that many of the environmental factors are of particular importance to islands and archipelagos, seeing that their unique ecosystems and biodiversity are highly sensitive to environmental encroachment. Low-lying islands are especially vulnerable to the effects of hurricanes and typhoons while global warming and a rising sea level will affect their long-term habitability [READ (2001)], a situation that was the main galvanising issue bringing many small island developing states together for the first time[116].

Apart from the wide range of environmental risks that small states face, unsustainable resource use is resulting in greater stress on their carrying capacity. Moreover, these states are also at risk from unregulated and too rapid tourist development. SUTTON (1998) considers that these vulnerabilities particularly affect Small Island Developing States.

According to KALY *et al.* (2002a), the main environmental challenges in SIDS tend to be centred on high impact natural disasters, ecological sensitivity and the less intensive but more widespread of human activities, with additional hazards driven from outside. The action of any of these hazards can secondarily increase vulnerability as a result of the damage sustained.

KALY *et al.* (2002a) divide the environmental challenges of SIDS into five different groups: natural hazards and intrinsic resilience, internal low intensity and widespread anthropogenic hazards, externally driven high intensity anthropogenic hazards, global climate change and acquired vulnerabilities or extrinsic resilience.

Most internally generated human impacts in SIDS tend to relate to problems with deforestation and conversion of forests, overexploitation of resources and increasing urbanisation. The damage caused by these activities tends to be widespread leading to losses of resiliency, but often not resulting in obviously highly degraded areas.

Externally driven high intensity anthropogenic hazards are caused by transboundary activities of other governments and multinationals. These include pollution, uncontrolled migrations and problems with migratory fisheries stocks, while the global climate change poses serious threats to all SIDS, although they contributed the least to the global emissions of green house gases.

According to the authors, the above challenges can lead to further environmental vulnerability since the resilience of SIDS environments to future hazards might be reduced.

1.2.3. Social Vulnerabilities

SPRINGER, GIBBONS and BIKENIBEU (2002) consider that the issues of social vulnerability that concern SIDS include demographics, population, the carrying capacity of the islands, the human capital and institutional capacity and the institutional arrangements for planning and decision making.

Population concerns include population size, a low proportion of active population and a difficult population mobility, a situation that affects the private sector growth. Migration is also a potential source of friction, constituting a serious problem for both the migrant-generating and the migrant-receiving areas.

Additionally, in some SIDS, a rapid population growth[117], has given rise to expansion of towns faster than the urban services can be provided. Several years of high birth rates and an improved child health has given rise to very large numbers of children and young adults that need education, health care and jobs. This involves substantial and additional costs related to the much needed upgraded in the infrastructure to accommodate this population growth.

Another serious challenge faced by SIDS, with regards to social vulnerability, is food security. In fact, in many SIDS, the quality of dietary intake is deteriorating,

[116] The formation of AOSIS proves it. This Alliance of Small Island States demanded action on climate change and its impacts, notably sea level rise. This group shares common objectives on environmental and sustainable development matters and was created at the Second World Climate Conference in 1990.

[117] According to SPRINGER, GIBBONS and BIKENIBEU (2002) some SIDS experience a high population growth rate. However, although population pressures are clearly dysfunctional, SIDS are far from having reached their carrying capacity. Notwithstanding, most authors consider that, on average, SIDS present a lower than average population growth, lower death rates, below average birth rates as mentioned, for instance, by DOMMEN (1980a).

agriculture is either stagnant or decreasing and food demand is becoming increasingly dependent on imports[118]. This situation confers some SIDS a high food security problem, and increases national vulnerability, possibly constraining future policy options. To increase food security it will be necessary to enhance the capacity to deal with natural disasters, to rationally use fishery and forest resources, to diversify their agricultural sector and to make it more competitive.

According to SPRINGER, GIBBONS and BIKENIBEU (2002), a major cause of insecurity in SIDS derives from inadequate education. Education levels are rising worldwide but much faster in developed countries. This situation widens the gap between SIDS and developed countries, since education is both consumption and investment, and its quality must be assured.[119]

Contributing factors to low education attainment in SIDS include a low quality of formal education, the relative short duration of compulsory education, as well as a low qualification and shortage of schoolteachers, limited school facilities and attempts to reduce teachers salaries in order to solve public budget deficits.

SIDS present, with a few exceptions, low technical capacities. Furthermore, private sector firms are small since they cannot realise economies of scale, attract business partners or spend significant funds on marketing, market intelligence and research and development. This situation has implications on the absorptive capacity of SIDS, both in terms of aid and investment. A negative consequence is the "brain-drain" losses of SIDS nationals to developed countries, translated into the highest per capita rates in the World.

The special circumstances of the small islands present major challenges for innovative and strategic management and development. The small size offers certain positive consequences such as a simple consultation process, quick dissemination of public policy and public information and close links between policy makers and the rest of the community in collaborative efforts to improve economic and social well being. However, small size, dispersed population and rugged terrain can add more difficulties

[118] In fact, in some islands imported food constitutes 80% of the household diet. SPRINGER, GIBBONS and BIKENIBEU (2002), pp. 12.

[119] Note that there is no measurement of the impact of education, but empirical evidence suggests a strong correlation with earnings, unemployment incidence, quality of life, poverty, fertility behaviour, child mortality and female education.

in providing social and economic infrastructures and services in a cost efficient manner, and diseconomies of scale must be overcome.

The authors alert for the necessity to contextualise any analysis of the institutional arrangements for Development Planning in SIDS by a review of the various factors, namely historical, economic and social, which have shaped public expectations of the role that Governments must play.

In fact, the engagements of governments in many SIDS, especially those in the Caribbean, have its genesis in colonial history. The transition from colonial administration to self-government and to political independence increased the consciousness of community leaders towards the social responsibility of Government to provide basic services to a highly dependent population.

A Commonwealth Secretariat study concluded that small states have higher inequality than larger states and are more exposed to external shocks [COMMONWEALTH SECRETARIAT (2000)], possibly a consequence of widely dispersed populations in some small archipelago island states, with a large percentage of income and employment occurring near the public sector.

Additionally, in some SIDS, problems of social cohesion are caused by ethnic or religious affiliation, which sometimes give rise to social conflicts, which in turn impact negatively on productivity and on sustainable development in general. Yet, there are studies that indicate that social cohesion is stronger in SIDS than in larger territories. This argument is put forward by STREETEN (1993), who also suggests that small states may be more flexible and resilient in the face of adverse events.

Authors such as EASTERLY and KRAAY (1999) express an optimistic note with regard to SIDS social vulnerability, stating that such states have, on average, higher productivity levels, lower infant mortality, higher educational attainment, and higher life expectancy, when compared to larger states.

It can be argued that social vulnerability, like any other one, is likely to occur in most developing countries. However, the impact on SIDS is expected to be higher due to their greater degree of economic vulnerability and to relatively high population densities.

1.3. Growth Patterns in Small Insular States

According to BASS and DALAL-CLAYTON (1995), island economic growth has frequently "taken off" through exporting natural resources of highest value at the time[120], a situation often accompanied by substantial environmental degradation and by significant social changes. In fact, development in small islands has exhibited a string of commodity booms and collapses.

The potential for small islands to pursue sustainable development depends upon maintaining the quality of certain limited natural resources. However, whilst some traditional practices have been quite sustainable, many small islands have developed cash economies by liquidating natural capital. As a result, the natural life-support systems of many island nations have been critically diminished and even in the few circumstances where it is possible to create substitutes the cost is great [BASS and DALAL-CLAYTON (1995)].

To avoid many of the risks of environmental degradation, some islands developed an extreme form of economy, independent of local resources but dependent upon economic opportunities elsewhere, know as the "MIRAB"[121] economy [BASS and DALAL-CLAYTON (1995)]. Other islands, especially those with few natural resources, have adopted a development path that depends upon income from banking, insurance and tax-free financial markets. However, these paths of development remain subject to disequilibria partly because environmental management is neglected and partly because they are heavily dependent upon external demands.

For instance, tourism has been of the one options chosen by small states that present the adequate natural endowments and a good climatic situation. However, although it is a valid diversification option, it also involves some negative economic consequences such as the rapid growth of non-indigenous food imports. This situation can lead to the already mentioned food security concerns.

According to KAKAZU (1994), when one considers the importance of food security, it is important to analyse closely the consequences of any development strategy. In fact,

[120] The authors mention, for instance, the export of minerals such as phosphate from Kiribati and Nauru in the mid 1800's, nickel from New Caledonia from 1870 onwards or oil from Trinidad form 1900. Other exports were high-value timber stocks from much of the Caribbean or from Hawaii and Mauritius.

[121] Migration, remittances, aid and bureaucracy.

a minimum standard of self-sufficiency is required to be maintained, particularly in terms of food supply. The author considers that rather than resorting to import substitution policies, such as raising quotas and building informal non-tariff barriers, it is necessary to think of the optimum export/import balance. KAKAZU (1994) put forward the notion of "*import displacement*", according to which it is necessary to revive the traditional style of food supplying for locals, using traditional production technology and methodologies that have been losing importance.

Another negative economic consequence is related to the import of inputs for the construction of tourism related facilities that have little or no linkages to the rest of the domestic economic activity. Therefore, although the facilities will lead to foreign currency endowments, the balance of payments might be negative due to over-exaggerated imports with little consequences. Furthermore, there are also some costs associated with the accentuation of "dualism" in the economy.

Therefore, environmental impact of tourism can be large and need to be thought out carefully in order to become sustainable. According to KAKAZU (1994), the balance between environment and development is extremely difficult to obtain and it is crucial to analyse the carrying capacity of islands before strategies for sustainable development are carried out. In this respect, the COMMONWEALTH SECRETARIAT (2000) concludes that while tourism developments can contribute and have contributed to the development of many island states, it should not be regarded as a panacea.

1.4. Comments Concerning SIDS' Vulnerabilities and Characteristics

GUILLAUMONT (1999) considers that many of the characteristics mentioned in Sections 1.1 and 1.2 – Chapter 2 cannot be considered vulnerabilities. For instance, remoteness from large markets, landlockness, low level of human resources are serious handicaps for growth but are not elements of vulnerability since they are not unforeseen events. In fact, although they may influence the consequences of a given shock, they cannot be included in the concept of vulnerability since they are structural economic features that affect the rate of growth permanently and foreseeably.

However, authors such as BRIGUGLIO (1995), the COMMONWEALTH SECRETARIAT (2000) or WITTER, BRIGUGLIO and BHUNGLAD (2002) include remoteness and the relative importance of transport costs as elements of vulnerability.
Of the three features often presented as the basis of island vulnerability, distance from main markets is a structural handicap, but not necessarily a vulnerability element, whereas small size may generate vulnerability and climate instability is a major component of vulnerability. However, many countries other than islands evidence one of more of these features, and not all islands experience all of the features.
Three factors of vulnerability are distinguished: size and likelihood of the shocks, exposure to the shocks and resilience or capacity to react. The first two factors are more structural and the latter is more related to policy. The size of the shocks is clearly an exogenous and structural factor of instability, resilience undoubtedly depends on the policy pursued while the exposure to shocks, although mainly a structural factor, depends to a certain extent on the policy.

1.5. Some Critics Concerning SIDS's Definitions

BELLANTYNE (1998) considers that there isn't a single and clear definition concerning small island developing states. The author goes as far as defining the notion of SIDS as a political one, given that it includes, for instance, countries such as Guyana and Belize, physically not islands. TUONONEM (1999) considers that the idea of establishing a formal SIDS list is not an easy one since there is little consensus on what concerns the categorisation of small states. Additionally, there is little conformity on which size definitions and thresholds to use in order to derive policy implications.
Consequently, the SIDS group is described as a mechanism to link a group of similar countries in order to strengthen their position in international negotiations and as a device to focus attention on their special needs [BELLANTYNE (1998)].
In fact, as pointed out by SELWYN (1980), the concern with islands as a social or economic category stems from the political of many island governments that are aware of the special privileges claimed by least-developed and land-locked countries. The same author concludes that islands are not a useful category in the context of social

analysis and policy and that the attempt to use them is an illegitimate extension of biological and social categories of thinking. Therefore, the current usage and definition of the term SIDS is insufficiently rigorous to be the basis for preferential or special treatment [BELLANTYNE (1998: 4)].

Nevertheless, the same author affirms that certain characteristics associated with islandness and smallness seem to be shared by many countries, and their impact can be defined as creating vulnerability in a variety of forms. Therefore, the author states that "*a focus on vulnerability seems to be more useful than the notion of SIDS*" [BELLANTYNE (1998: 2)]. The causes of the problems are often external and therefore beyond influencing, seriously hampering their policy options. Consequently, "resilience" is a crucial element since it incorporates elements of preparedness, flexibility, recovery and insurance against disaster.

The author concludes that it is important that vulnerability, and not size nor physical characteristics, becomes considered to be as important as poverty, in determining developmental needs [BELLANTYNE (1998: 4)].

Other conclusions, in the same line of thought, are those by SELWYN (1980), who concludes that the issue is not the "islandness" but the remoteness, peripherality and the decline of self-reliance, characteristics that are present in many countries that are not islands. Furthermore, the author considers essential the distinction between insularity, remoteness and peripherality.

2. The Overcome of the Challenges of the Small Insular Developing States: Recommendations for Enhancing Resilience.

In this Section of the Chapter, focussed on Small Island Developing Countries, attempts are made to describe the special needs and priority areas for SIDS and simultaneously introduce some of the approaches and recommendations prepared, mainly by international bodies, to manage the vulnerability that we have already described in prior sections.

Once again, we face the fact that SIDS are a sub-group of Small States and that the literature mainly focuses on the larger group of countries, Consequently, most recommendations and studies apply directly to small states and only indirectly to

SIDS. Through out this Section, we intend to portray the comments we believe to be of direct interest to SIDS even though some of these come from studies related to small states. These include essentially the Commonwealth Secretariat and the Commonwealth Secretariat/World Bank Joint Task Force Report[122], which focuses on small states but also presents interesting comments and recommendations that clearly take SIDS into account.

2.1. Special Needs and Priority Areas for SIDS

Having the WSSD Plan of Implementation [UN (2002)] as a reference, one could say that the elements included in the plan that are the most relevant to SIDS priorities are: climate change, agriculture, disaster management, threats and opportunities from globalisation, sustainable trade, environment and development linkages, mobilisation of resources, access to markets for developing countries' products.

SUTTON (1998) also mentions *small states* concerns that can also be applied to SIDS. The main concerns include the marginalisation in the context of increasing globalisation and the graduation from international financial institutions (IFIs). In fact, these countries may not be able to develop and sell goods and services in sufficient number and/or at a commercially viable price. Moreover, the majority of SIDS are classified as middle income states, whereas concessional assistance is primarily given on the basis of per capita income, implying that many of these countries face graduation with little recognition by the IFIs.

Other concerns mentioned by SUTTON (1998) include increasing environmental risks, indifference by many larger states and international organisations, the means of implementation and the need for an institutional framework for sustainable development.

[122] COMMONWEALTH SECRETARIAT (2000). This report was a landmark document that allowed, for the first time, the recognition by the international community of the special economic challenges that small states face in today's global economy. Furthermore, it sets out a conceptual framework and agenda for addressing these challenges by the states themselves and by international organisations.

2.1.1. Present Status of Small States and SIDS

According to an United Nations *ad hoc* expert group[123] during the 1990s, SIDS became more vulnerable. This group was intended to review the technical work of the consultants focused on the definition and measurement of vulnerability and to make appropriate recommendations to tackle it.

The result was true even though some of these countries reduced environmental vulnerability through new policies and legislation and others attracted significant levels of FDI as a means of diversifying their economies and therefore reducing their economic vulnerability. This growth in vulnerability was mainly due to the global climate change and sea level rise.

This conclusion is consistent with the Joint Task Force Report, which asserts that *small states* share a number of development challenges that result in them being especially vulnerable to external events that cause high volatility in national income, including natural disaster. Furthermore, many of them are facing an uncertain and difficult economic transition to a changing world regime and they suffer from limited capacity in both public and private sectors.

The established expert group identified the tendencies that are leading to an increasing economic vulnerability and concluded that, as a result, SIDS are diverting resources initially projected for investment in social equipment and infrastructure to the resolution of global problems. For instance, the Maldives, as a result of the rising sea level, had to divert Japanese assistance originally intended to support educational infrastructure into the building of coastal defence structures around the capital city [BINGER (2002: 57)].

The tendencies identified by the expert group included a greater exposure to globalisation trends as a result of WTO regime of tariff reduction and other WTO rules. A growing indebtedness, reduced possibilities of diversifying the economy, a greater dependence on tourism and a low absorption of technology, were also identified as trends.

[123] In 1997, the United Nations Department of Economic and Social Affairs - Commission on Sustainable Development – engaged two consultants (Professor Lino Briguglio, of the University of Malta and Dr. Dennis Panin, of the University of West Indies) to develop economic and environmental vulnerability Index.

Reductions in donor assistance were partially considered to be a consequence of the continued designation of per capita income as the principal determinant of development assistance benefits.

Furthermore, SIDS also experienced a steady depletion of natural resources (minerals, forest, freshwater, fish stocks) and the failure on the part of the international community to act on climate change during the decade of the 1990s.

2.2. Approaches and Recommendations for Vulnerability Management

The COMMONWEALTH SECRETARIAT (2002) considers that the problems faced by *small states* concerning sustainable development have won significant international recognition, since there is an acknowledgement that their vulnerability requires special and differential treatment from the international community. An integrated view of development has arisen, according to which environmental protection cannot be separated from economic development and alleviation of poverty.

As a result, the process of development cooperation currently involves a number of major initiatives such as the World Summit on Sustainable Development (WSSD)[124], the WTO's Doha Round, the Millennium Development Goals (MDG)[125] and the UN Monterrey Conference on Development Finance[126].

Subsequently, an expert group was established in 1997 in order to review the technical work of the consultants and to make appropriate recommendations.

[124] Also known as the Johannesburg Summit and held from August 26th to September 4th 2002. The conference aimed at channelling both the world's attention and direct action towards meeting difficult challenges. These included, for instance, improving people's lives and conserving their natural resources in a world that is growing in population, with ever-increasing demands for food, water, shelter, sanitation, energy, health services and economic security.

[125] Many of the targets of the MDGs were first set out by international conferences and summits held in the 1990s. They were later compiled and became known as the International Development Goals. Following consultations among international agencies, the General Assembly recognised the Millennium Development Goals as part of the road map for implementing the Millennium Declaration, which was unanimously signed in September 2000.

[126] The International Conference on Financing for Development was held in March 2002. It provided a forum for discussing steps to be taken to remove obstacles to economic growth and development. The Conference is extremely important if small states are to have the ability to take on additional obligations, and the prospects for the Plan of Implementation would greatly assisted if firmer commitments to achieve the 0.7% aid target are achieved.

2.2.1. A New SIDS Paradigm

It is the greater tendency for damage that sets SIDS apart from most other countries. It is expected that the effects of hazards will be more pronounced and cause greater damage in SIDS, since they are small and their human and natural environments have limited capacity to absorb shocks. This greater vulnerability of SIDS, thoroughly discussed in Sections 1.1. and 1.2. – Chapter 2, is translated into greater impediments to Sustainable Development (SD) and on the recognition that the current SD paradigm may be inapplicable to them.

Furthermore, the changes involved in globalisation are so profound that the implications for small developing countries cannot be addressed only by the pursuit of conventional economic policy, requiring a new development paradigm that addresses these new challenges. Consequently, KALY *et al.* (2002a) considers that it is becoming increasingly clear that a new SIDS Paradigm for Sustainable Development is needed.

Sustainable development is not a matter of discrete actions on a range of development concerns. Instead, it is about finding "*new ways of balancing equity, economics and ecology*"[127], integrated approaches that potentially address multiple impacts and benefits across the three pillars of SD, attaching high priority to "*making Sustainable Development happen*" [COMMONWEALTH SECRETARIAT (2002a: 2)].

As the range of issues addressed is very broad, a clear vision of development is necessary, implying an open and continuous dialogue with all members of society and a long-term investment in partnerships between governments of different nations at all levels and including business and the civil society.

The main areas for sustainable development should include, according to the COMMONWEALTH SECRETARIAT (2002a), strengthening democracy, human rights and the rule of law, eliminating poverty, empowering women, investing in youth and reversing the current trends in the loss of environmental resources. Furthermore, it should entail the forging of new opportunities in trade, investment and private sector

[127] WATKINS, K. (2002), "Trade and Sustainable Development: Time for a Fresh Start in Johannesburg". *Bridges* 6 (5), June. Quoted in COMMONWEALTH SECRETARIAT (2002a).

development, since free trade is considered to be one of the most powerful tools in reducing global poverty and meeting the Millennium Development Goals (MDGs).

Taking in consideration that the challenges that SIDS face are differentiated from those faced by other groups of countries, different approaches and instruments are required. These should include a combination of measurement and assessment, management within the country, internal resilience-building, the use of multilateral environmental agreements and international assistance [KALY *et al.* (2002a)].

The Barbados Programme of Action (BPoA) proposed many measures, some of which are part of the approach to deal with SIDS vulnerability and development. However, these do not provide sufficient focus on intrinsic vulnerabilities, building resilience nor on the problem of acquired vulnerability. Furthermore, there has not been an understanding of how to frame and coordinate all of the efforts as to ensure the future.

Authors such as KAKAZU (1994) believe that the lifestyle of people, living standards, the environment and the capacity of development should be taken in consideration when a development strategy is being put forward. In fact, this author describes islands as being an open system that should be maintained when planning development in order to maintain the same standards of living.

The first step in attempting to manage the vulnerabilities of SIDS is the identification of all aspects of vulnerability and their consequent measurement. The sustainability of the SIDS' future must be based on a symbiotic relationship between people and the natural environment. The environmental management must be seen as an integral part of the economic, cultural and social systems of a given country.

On what concerns the internal management of vulnerabilities, certain aspects of vulnerability can be solved trough policy, legislation, political will and public cooperation, which should take into account the social and economic objectives of SIDS.

However, some of the challenges are generally not under control of the governments and therefore the emphasis should be on building internal resilience against their negative effects. International assistance is, therefore, fundamental to simultaneously examine and develop programmes for addressing aspects of vulnerability subject to action. In fact, as pointed out by the COMMONWEALTH SECRETARIAT (2002a),

the delivery of the Monterrey Consensus is essential in order to increase the flow of resources for sustainable development and to reach the international agreed target of 0.7% of GDP.

2.2.2. Building Resilience and Managing Vulnerabilities

Throughout the following section, numerous references will be made to the recommendations of BASS and DALAL-CLAYTON (1995), BINGER (2002), WITTER, BRIGUGLIO and BHUNGLAD (2002), and COMMONWEALTH SECRETARIAT (2000), all of which are very similar in content.

The management of vulnerability is fundamental for SIDS and its attainment is a challenge since there is a pressing need to become flexible and to adjust to external shocks in an international economic context that is rapidly changing so as to meet the challenges of the 21st century.

WITTER, BRIGUGLIO and BHUNGLAD (2002:23) consider that "*pursuing sustainable economic development strategies will enhance the capabilities of SIDS to deflect and mitigate external shocks*". Hence, SIDS need to minimise the risks from external shocks and, at the same time, maximise their environmental, economic and social resilience. Both aspects will require the engagement of the international economy on terms that facilitate SIDS sustainability and viability and that must imply changes at a national, regional and international level.

Poverty eradication is considered to be the most crucial accomplishment necessary for the achievement of sustainable development by all the major international organisations. In fact, the UN, the EU and the Commonwealth are all using the WSSD Plan of Implementation as an objective and the Millennium Goals have become everyone's objective. Similarly, the COMMONWEALTH SECRETARIAT (2002) has concluded that the persistence of poverty may lead to difficulties related to "poverty of opportunities" associated with smallness.

As an approach to address the challenges faced, the Joint Task Force Report proposes a combination of domestic policy action, new approaches to regional cooperation, external support, assistance from both bilateral and multilateral development

institutions and improvements in the external environments faced so as to increase trade prospects and attract capital flows.

This combination of policies falls in line with the conclusions of WITTER, BRIGUGLIO and BHUNGLAD (2002), who believe that economic vulnerability is multifaceted and thus consider that SIDS management of vulnerabilities should include a series of features that seek the improvement of flexibility and the enhancement of the ability to withstand external shocks.

The recommendations of the Joint Task Force Report are done at three levels and are directed at the governments, the international development assistance organisations and bilateral donors in general.

The actions include forging strategic alliances to overcome size constraints, capacity building, education, tapping expertise and financial resources from overseas communities, SIDS-SIDS cooperation and the development of a trade negotiating strategy for SIDS. There is also an urgent need to develop competitive and diversification strategies, promote the stability in the macroeconomic environment and the use of Information Technology (IT).

Other more SIDS-specific actions include the reduction of the dependence on imported energy, the development of capacities in the field of marine resources management.

On what concerns tackling volatility, vulnerability and natural disasters the Task Force Report proposes disaster mitigation measures, catastrophe insurance and commodity risk management. According to the same report most SIDS depend heavily on agriculture, fisheries and tourism, a situation that makes them particularly vulnerable to external influences, such as those associated with environmental hazards[128].

While hazards are inevitable and risks impossible to eliminate, the capacity of SIDS to develop and use risk management programmes becomes a key factor. Therefore, after risks have been reduced through physical mitigation measures[129], natural disaster insurance can provide some relief while trying to compensate inherent uncertainty.

[128] In fact, at least 13 of the 25 most disaster-prone countries are SIDS. These conclusions were reached in a recent study by the former Office of the United Nations Disaster Relief Coordinator (currently the International Strategy for Disaster Reduction Secretariat, situated within the Office for the Coordination of Humanitarian Affairs) quoted in BINGER (2002: 24).

[129] These should include, for instance, appropriate zoning and hazard mapping, the establishment and enforcement of building codes and disaster information mechanisms.

Methods of insurance against risks of foreign trade include, according to STREETEN (1993), the existence of ample foreign exchange reserves, the access to credit to bridge over temporary balance of payments difficulties or the upholding of large stocks of goods. However, the same author notes that these forms of providing against uncertainty are expensive, implying that small developing countries might not be able to afford them.

With regards to natural resources, a limited natural resource endowment is a defining characteristic of SIDS[130]. In fact, a vast majority of these countries have limited arable land that is used primarily for the production of agricultural commodities for export and that, consequently, lead to food security problems, becoming a major factor of vulnerability. It is therefore necessary to enhance mechanisms for integrated agricultural and land resource management and to build partnerships for the sustainable development of marine resources.

Additionally, most SIDS have a very limited water supply, being therefore dependent upon rainfall and/or desalination plants. Water is relatively costly, representing a constraint for development and, furthermore, as population grows so does the demand for water. According to the Joint Task Force Report, conservation, efficient use and recycling are essential options that still need to be developed. It is equally necessary for SIDS to participate more in the global environmental negotiations.

The transition to the changing global trade regime is also crucial. In fact, SIDS must adapt and transform their economies in order to secure the benefits from globalisation in an increasingly open trade environment. This adaptation should be seen as part of a sound overall economic development strategy that should take into account both the erosion of the trade preferences and the global economic environment[131]. The report recommends the evaluation of the viability and requirements for a common approach and capacity to the WTO negotiations.

Capacity building is surely considered by WITTER, BRIGUGLIO and BHUNGLAD (2002) to be very important and SIDS should be assisted to strengthen their public and private sector institutions, through the promotion of institutional changes. The Joint

[130] Section 2.2.1. – Chapter 1, pp. 24 and Section 1.1. – Chapter 2, pp. 55.
[131] For further information, turn to Section 2.2.5. – Chapter 2.

Task Force report also concluded that problems related to limited capacity, both in public and private sectors, should continued to be addressed.

More specifically, actions should include regional approaches and cooperation, attempts to reduce heavy and unnecessary burdens on limited capacity caused by a multiplicity of donors. The latter implies the simplification and harmonisation of aid procedures and also a closer consultation with recipient agencies, as aid should be flexible and responsive to a country's needs and realities[132].

In this context, planning is considered to be an effective and efficient mean of addressing vulnerability given that failure to plan explains, to a certain degree, the weak performances of SIDS' governments. Successful planning is considered to be a function of institutional capacity building that, in turn, depends on the training, education system and human resources development strategy.

However, the Task Force Report argues that these failures in development planning processes are not due to the level of state intervention, but to their inappropriate design that confers them a reactive and prescriptive nature instead of providing the framework for proactive measures, an opinion also shared by SPRINGER, GIBBONS and BIKENIBEU (2002)[133] and BASS and DALAL-CLAYTON (1995). In short, it is the style of management and not the role of the government that is the problem.

Additionally, it is becoming clearer that traditional concepts of sovereignty cannot cope with the significant cross-country threats, such as changes in the multilateral trading system, HIV/AIDS, money laundering or drug trafficking. Hence, it is imperative that SIDS forge new forms of governance that will allow space for elements of the civil society to interact freely and participate meaningfully in the formulation and implementation of sustainable development policies.

Consequently, SPRINGER, GIBBONS and BIKENIBEU (2002) believe that it will be necessary to strengthen policy and planning capacity through knowledge development and sharing, establishing an institutional framework for Integrating Development

[132] Turn to Section 2.2.4 – Chapter 2 for more information on the role of institutions and capacity building in a sustainable development strategy.

[133] The authors believe that the failures in development planning encountered are not because of the level of state intervention but due to the style of management used. The latter is not addressing the unique social and environmental conditions and is not encouraging transparency and accountability.

Planning as well as to strengthening the channels for on-going participation in policy and planning and for regional coordination and cooperation.

BASS and DALAL-CLAYTON (1995) also consider that an island strategic approach should include a framework for planning and public participation so as to forge a National Sustainable Development Strategy (NSDS) that will be, according to BELLANTYNE (1998) vehicles for institutional strengthening, since they broaden the scope of institutions' understanding of sustainable development.

Tools for analysing the island circumstances and generating solutions within the NSDS will be needed and resource management techniques should be appropriate for islands. In other words, cooperation instruments should become "small-ist", rejecting the "one size fits all" approach [BELLANTYNE (1998)]. Consequently, TISDELL (1993) considers that project appraisal needs to be holistic and should take adequate account of the institutional cultural bases in which it lies, since methods of project appraisal formulated largely with western values may prove to be limited in an island context.

The development of competitive strategies is also vital and should be combined with the use of IT technology, diversification, and the education and training of the human resources. Additionally, a stable macroeconomic environment is considered to be a *sine qua non* condition for the development of SIDS.

Suitable diversification and differentiation strategies will necessarily have to be developed and implemented in order to fully exploit SIDS's human and natural resources in ever more dynamic markets. This situation will imply, according to the Joint Task Report, a collaborative mechanism for exploring new market export niches based either on new or traditional products.

BASS and DALAL-CLAYTON (1995) consider imperative the existence of traditional and new resource management systems for restoring, stabilising and developing the resource base, given the need to generate multiple use possibilities for island resources.

In fact, the productive activity should be geared towards high value-added commodities and services and to the opportunities provided by globalisation, as explained ahead, in Section 2.2.6. – Chapter 2.

However it should be pointed out that, although diversification is often advocated as a means to overcome dependence on certain commodities, it is a potential source of risk and uncertainty. As a result, greater attention should be given to mechanisms that stabilise market access, enhance predictability and insure against risks.

On what concerns the human resource development, it should be noted that the most important resource in SIDS is undoubtedly its people. Subsequently, the development of their capabilities is an essential prerequisite for SIDS to become internationally competitive in high value-added services[134]. Thus, it is imperative that education receives the highest priority in the SIDS strategy to manage their vulnerabilities.

Furthermore, the acquisition of appropriate skills and technologies constitute an essential part of the resilience building process needed to reduce social, environmental and economic vulnerability to global threats.

As pointed out by many authors[135], the cutback on imported energy is imperative, as it will relieve resources that will become accessible for other priorities. In fact, energy is a "major Achilles heel" for SIDS since it is one of the most important causes of SIDS vulnerability [BINGER (2002: 16)] as energy shocks are one of the must recurrent external shocks experienced in these countries. Furthermore, the volatile nature of the global energy market has led to inflation, disruptive economic growth and to external indebtedness.

However, the Joint Task Force Research Team concluded that reducing the dependence on petroleum and other non-renewable energy resources would only decrease SIDS vulnerability when accompanied by the development of renewable energy sources and by a more efficient use of energy.

The cooperation amongst SIDS is also considered to be an important method to overcome size constraints. Recent experiences, quoted by BELLANTYNE (1998), demonstrate that for certain areas of cooperation, namely environment, fisheries or marine pollution, regional cooperation is the only feasible solution for the mobilisation of sufficient recourses in SIDS.

[134] As mentioned by COLE (1993), skills based on a strong education background are critical for the development of the private sector.

[135] Among which are BINGER (2002), WITTER, BRIGUGLIO and BHUNGLAD (2002), and COMMONWEALTH SECRETARIAT (2002).

It should nevertheless be noted that the actions proposed, aimed at the management of SIDS vulnerabilities, need to be supported by the international community in order to SIDS to cope effectively with their intrinsic economic vulnerabilities. HAITINK (1998) also mentions that the specific characteristics of these states urge international cooperation, whether it being trade or aid. Trade in goods and services, migration and international capital flows are both complementary and competitive. For those countries poorly endowed with natural resources, migration and the participation in the capital markets are particularly important.

In fact, authors such as BLAZIC-METZNER and HUGHES (1982) believe that the future development of small states is dependent on the continuing expansion of liberal economic relations, since although each country, taken individually, is only a marginal participant in world markets, together and in particular markets, their impact can be quite marked.

However, as already pointed out in Section 2.1. – Chapter 1, due to their small size and vulnerability, small states, in general, and SIDS, in particular, do not easily attract FDI, especially when we take into consideration a competitive profit-maximising environment. Furthermore, multilateral financial institutions do not provide loans to many SIDS because of issues of credit worthiness and "free" trade is still to be.

Therefore, and at a national level, it will be necessary for SIDS to develop an enabling environment for FDI. SIDS will need to implement appropriate actions such as the simplification of administrative arrangements in order to improve their internal investment climate.

On a more regional and international level, it will be necessary to develop a policy exchange facility that allows SIDS to exchange information on best FDI attracting practices, as well as fighting for a waiver on constraints on investment incentives.

Although cooperation is encouraged, international organisations recommend its restriction to potential synergetic areas such as education, planning and implementation of projects concerned with disaster preparedness and mitigation.

As pointed out by BASS and DALAL-CLAYTON (1995), international relations are critical for small island states since they can be an efficient means of generating good

information concerning the negative and positive effects of international relations on key issues such as trade, debt or aid.

2.2.3. The Role of Institutions

In general, the quality of state institutions can go far in explaining the variety of growth and human performance found in developing countries. Two kinds of political institutions seem particularly important, namely those that reflect higher levels of state capacity and those that manage social conflicts.

BRÄUTIGAN and WOOLCOCK (2001) believe that the identification of institutional differences facilitates the distinction between successful small countries and those that do benefit from the opportunities that accrue from globalisation.

Although these states tend to be equally exposed to risks and opportunities of globalisation, they differ internally, particularly on what concerns historical and strategic choices that lead to different sets of institutions that, in turn, affect how globalisation is mediated in each country.

Furthermore, differences in institutions will also be visible among small and small insular developing states.

On what concerns state capacity, several researchers suggest that bureaucratic quality[136] and other governance indicators[137] are important in explaining growth and that good institutions can help mediate the latent social conflicts associated with ethnic and economic inequality. Effective state institutions are critical in mediating the impact of globalisation in small developing countries and necessary to formulate and implement economic and social policies [BRÄUTIGAN and WOOLCOCK (2001)].

Simultaneously, institutions are important to ameliorate the social impact of instability and mediate conflicts. Therefore, institutions are seen as a means to compensate for change and implement strategies of continual adjustment [RODRIK (1998)]. Following this line of thought, GOLDSMITH (1999)[138] concludes that states that are

[136] For instance, CAMPOS and NUGENT (1999). Turn to BRÄUTIGAN and WOOLCOCK (2001) for more information on this subject.

[137] EASTERLY, WILLIAM (2000) "Can Institutions Resolve Ethnic Conflict?". Policy Research Working Paper number 2482. *World Bank*, Washington, DC. Quoted in BRÄUTIGAN and WOOLCOCK (2001).

[138] GOLDSMITH, A. A. (1999), "Africa's Overgrown State Revisited: Bureaucracy and Economic Growth". *World Politics* Volume 51 (4): 520-46. Quoted in BRÄUTIGAN and WOOLCOCK (2001)

more open to trade also have larger governments in order to manage and compensate for the costs of continual adjustment[139]. The same author also argues that small countries with more activist states may be better able to cushion the social impact of vulnerability.

Taking in consideration the already mentioned growing social vulnerabilities and the need to solve these tendencies, the role of the Government is evermore fundamental. In fact, the special characteristics of developing countries in general, and of SIDS in particular, imply a much more interventionist state.

A reduction of the overall SIDS vulnerabilities will necessarily require that governments play a greater role as the minimal flow of FDI and the limited market infrastructure do not allow the effective and efficient operation of market forces. The private sector also has diminished capacities and is extremely vulnerable, disorganised and dependent on protected markets. Furthermore, SIDS's governments have the social responsibility to provide basic services to a highly dependent population.

However, the current orthodoxy favours decentralisation and the reduction of the size of the public sector. Yet, the Joint Task Force Expert Group alerts for the necessity of SIDS to analyse the appropriateness of donor conditionality and its results on vulnerability and resilience, avoiding, this way, the "blind" adoption of measures recommended by the international community. It is also necessary to keep in mind that the small size of SIDS will make the role of government relatively larger than that found in other developing countries.

SPRINGER, GIBBONS and BIKENIBEU (2002) consider that, although many SIDS are now accepting the need for changes in the role of the state and in the development planning, the reasons for government involvement in economic management have not, and will not, disappear. These include lack of domestic private capital, the risk of foreign domination of the economy and the monopolistic tendencies of some sectors.

One of the major challenges faced by SIDS is the resolution of the "*conflicting advice and requirements regarding the role of the government and its corresponding size and structure*" [BINGER (2002: 57)].

[139] This author argues that the African states with the largest public sectors, namely Botswana and Mauritius, are also two of the continent's most consistently good performers.

Small countries will remain vulnerable to an unpredictable global economy. Although they cannot control economic external results, they can control, to some extent, their domestic rules and institutions, suggesting that high quality institutions can make a difference in the management of the threats and opportunities of globalisation [BRÄUTIGAN and WOOLCOCK (2001)]. However, it is necessary to bear in mind that institutions change slowly.

2.2.4. Implications of Vulnerability on Governance and Trade Regulation

Cooperation in the area of trade strategy is extremely important for Small States, and more specifically for SIDS, given that they depend significantly more on international trade and their specificities are not internationally recognised.

Trade liberalisation can have major fiscal consequences since SIDS risk losing a major source of fiscal revenue without the capacity to replace it efficiently. As small insular states move to a more service based economy, broader consumer taxes, such as VAT, will need to be adopted. Thus, the implementation and supervision of the new tax systems is necessary, requiring capacity building and external assistance.

Recent years have seen the progressive liberalisation of World Trade with the consequent erosion of trade preferences to SIDS that generally received LDC treatment. Consequently, most SIDS no longer have access to these preferences given the graduation mechanism that excludes countries with higher GDP per capita and ignores specificities and vulnerabilities. Taking in consideration this erosion, both time and resources will be needed to change the structure of small states economies, a situation that, once again, will require policy change and external support.

According to the Joint Task Force Report, sustained economic development needs to be ensured requiring sound economic domestic policies. These include policy reforms to increase both private sector investment and employment and, simultaneously, complementary public policy action and investment to provide better infrastructure, education and institutions.

External financial and policy support is needed to support the mitigation of adverse social impacts of transition. External aid should be target at modernising the economy and should suit SIDS' institutional capacity. Furthermore, it should be coordinated and

aimed at efficiency. External support should include agreements on larger transition periods, action to reduce or remove barriers to small states' exports, particularly agricultural exports[140], active support for their participation in the WTO and the recognition of the difficulties caused by their vulnerability and limited institutional capacity.

Some authors[141] include, as part of a trade negotiating strategy, aimed at the reduction marginalisation, the following aspects: special and differential treatment for SIDS, flexible tariff reduction or SIDS subsidies[142], which are crucial for the pursue of economic and industrial development strategies. The trade strategy should also include support measures to overcome the burden of high international costs as well as a flexible dispute settlement mechanism as not to hamper SIDS efforts of integration in the multilateral trading system. A special and more favourable treatment in terms of market access, without which there is a risk that these countries will be further marginalised, should also be taken into consideration.

Furthermore, as mentioned in the previous section, the function of the State should not be necessarily considered to be trade distortive, since its role, on certain economic activities, is crucial to promote both sustainable development and economic growth in these countries. This should include state trading enterprises, since in some SIDS the private sector might not be relied on for the import of basic commodities that need to be provided by the State.

2.2.5. Challenges and Opportunities from Globalisation

Globalisation is not a new phenomenon. However, it has accelerated in recent years and it requires rapid action from all countries, including SIDS, many of which have limited resources and capacity to respond. It is a multi-dimensional process that is

[140] The critical importance of access to markets is highlighted in WORLD BANK (2000), "Trade Policy for Development and Poverty Reduction", Draft, March. Quoted in the COMMONWEALTH SECRETARIAT (2000).

[141] Such as BINGER (2002), WITTER, BRIGUGLIO and BHUNGLAD (2002) or COMMONWEALTH SECRETARIAT (2001) and (2002).

[142] Exemption from the non-subsidy ruling is a key factor, particularly in key areas such as energy, fresh water supplies, fisheries and food processing.

transforming, at a rapid rate and profound way, all aspects of national and global activities.

Continuing innovation and technological change drives the process and it is associated with the elimination or reduction of national barriers to global movements of goods, services, capital, technology and labour. Inherent to this process of restructuring is the decline or demise of some industries and products and the simultaneous creation of opportunities for new products and services. The latter phenomenon is only possible given the existence of a global market that provides a highly intensive level of competition, that on turn requires continuous innovation as well as improvements in efficiency [BERNAL (2000)].

According to the Joint Task Report, globalisation brings opportunities as well as challenges. Whereas, the challenges arise from the globalisation of trade, the opportunities lie mostly in areas as information and communications technology that shrink distances and help to overcome disadvantages of remoteness and isolation.

As described through our discussion, small island developing states present specific structural features that must be changed if these countries are to cope with the rapid and profound changes associated with globalisation.

BERNAL (2000) considers that adjustment will not be enough to enable these economies to cope with changes, since it only implies marginal and incremental modifications to the economic structure. Instead, SIDS will require economic transformation that entails the ability of facilitating the rapid and frictionless international mobility of goods, services, finance, capital and technology and goes beyond resource utilisation reallocation and mobilisation.

Therefore, small island developing states need to undertake a strategic global repositioning[143] (SGR) of their economies based on a strategic medium to long-term plan. It should be formulated from continuous dialogue between the private and the public sector and based on unique and adapted policies that should include the creation of enabling environments and the provision of public policy support that encourages new activities. Proactive structural and institutional transformation[144], focussed on

[143] BERNAL (2000) and COMMONWEALTH SECRETARIAT (2000).

[144] In fact, according to BERNAL (2000), defensive and reactive adjustment, which aims to preserve industries or to retain aspects of production that are non-competitive, is self-defeating. In the short run, reactive adjustment

improvement and diversification of exports, should also be an integral part of SGR, implying the undertake of a continual process of adjusting to changing demands.

Many states will need external support and advice and, consequently, need to improve their international and economic political relations. SGR will require financing from both public and private sector sources. For SIDS, mobilising private capital is constrained by the fact that, even with sound economic policies, these countries are perceived as more risky than larger developing countries.

On what concerns sound economic policies, the Joint Task Force Report concludes that these are essential for successful development in small states, as elsewhere. However, BERNAL (2000) considers that good domestic policies are indeed necessary but not sufficient conditions for economic development. Furthermore, the author states that sound domestic development policies only result on positive effects for highly open economies if a conducive external environment complements them and if the measures bear in mind the specificities of each economy.

The fragmentation of transnational production processes into separate stages, being undertaken in different countries, and the introduction of strategic corporate alliances have given small firms the opportunity to overcome the limitations of size and compete effectively [BRENAL (2000)]. Therefore, small insular developing states with small firms might be able to profit from globalisation.

The most relevant opportunities that arise from globalisation are related to international financial services, information technology, electronic commerce and public and private sector policies aimed at exploiting new opportunities. The latter is based on sound economic policies that will include improved economic management and reform, complementary policies and investments on infrastructure, education and regulation and will simultaneously require regional cooperation.

Other opportunities accrue from the manufacturing of brand names for special products, individualised and differentiated products and small high-value aspects of international production processes. The production for niche markets is also a

reduces competitiveness of exports and increases prices of domestic goods. In the long term, entrepreneurs will find cheaper ways to import alternative goods and will reallocate inefficient production to other countries in order to retain international competitiveness.

possibility, especially if the products require constant innovation or have well-established reputation.

On what concerns international financial systems, they allow countries to share risks with the rest of the world by holding claims on assets whose returns are not perfectly correlated with the returns of the domestic assets "*since the correlation of economic fluctuations in small states with the world business cycle is surprisingly low*" [EASTERLY and KRAAY (1999: 3)]. However, the exploitation of this potential benefit by small states is being put on hold due to problems related to offshore financial centres and to financial crimes such as money laundering.

Notwithstanding, EASTERLY and KRAAY (1999) note that even though the insertion into international financial systems may help countries to ensure themselves against large shocks, financial openness in itself is not a panacea, as the existing evidence does not support the view that there are growth payoffs associated.

Information technology (IT) and electronic commerce can offer unprecedented opportunities for SIDS for becoming part of global supply and demand chains [SCHWARE and KIMBERLY (2000)]. SIDS can now become collaborators, suppliers and consumers. These opportunities create new business opportunities and increase their wealth, well-being and quality of life of the population, providing a major impetus to their development, especially for countries with a well-educated and computer-literate workforce.

Priority projects should include regional hubbing for telecommunications, business, IT and internet skills-pool and the development of the financial services sector such as internet banking, financial services and insurance. The potential for technology-based job creation and efficient internet intermediary operations should be examined and the focus should be maintained on existing strengths to promote earning and tax base[145].

Nonetheless, SCHWARE and KIMBERLY (2000) conclude that technology can help in some cases, but it is only part of the solution. Strong regional cooperation and external assistance are also essential.

[145] These should include tourism, agriculture, horticulture, fresh produce, textile, local foods and beverages, fishing, public sector and trade efficiencies.

In conclusion, and as remarkably referred by BRÄUTIGAN and WOOLCOCK (2001), small states succeed at globalisation when they are able to combine economic competitiveness, continual innovation and increasingly higher value added production with reductions in poverty and improvements in key socio-economic indicators such as health, longevity, literacy and social violence.

2.3. The Road Ahead: Future Challenges

Throughout our discussion, it has become clear that sustainable development remains a distant aspiration for SIDS due to their economic and environmental vulnerabilities. The heavy responsibilities imposed on these countries by international commitments are also factors that affect the attainment of sustainable development as its costs constitute a significant barrier to the implementation of the adequate policies.

The COMMONWEALTH SECRETARIAT (2002) considers that the next steps must include poverty eradication, governance and the participation in post-Summit institutions, given that development is most responsive when it is inclusive, participatory and transparent. It is equally necessary to engage the civil society, the governments and the international community. Additionally, it is essential to mobilise resources, to strengthen the voice of small states and to explore voluntary partnerships.

On what concerns the differences between small and small insular states, some questions remain unanswered. In our discussion, we did not try to give an absolute answer to the questions, since evidence can be found for both points of view. However, one might conclude that SIDS do possess different characteristics than those presented in non-island small states and that these grant them a higher vulnerability.

In fact, as pointed out by SLADE (1998) "*it is true, indeed, that SIDS in many significant respects differ from other developing countries and are naturally and extremely vulnerable; and that consequently SIDS face additional constraints in their development efforts*".

However, one should keep in mind that, generally, studies on small insular developing countries tend to focus on the nature of the vulnerabilities, not considering the different ways in which the external pressures have been managed. Yet, it is important to note that globalisation brings risks as well as opportunities and that a more

integrated global economy may enable small insular developing states to adapt quickly to changing conditions and, therefore, to identify and pursue strategic development policies.

Furthermore, and as mentioned by SLADE (1998), it is important for SIDS to accept that the assertion of vulnerability alone is not sufficient. Much more needs to be done to build understanding and to encourage the international community to respond to SIDS' needs. Furthermore, it is equally crucial to promote a reaction from the SIDS themselves, particularly emphasising specific priorities as well as what can and must be done.

Therefore, "*the implementation of strategies for sustainable development must and should be undertaken by SIDS with the essential support of the international community*", since the ultimate result will be self-reliance with strengthened local capacities, essential for lasting sustainability [SLADE (1998: 4-5)].

PART II

CHAPTER III

SOCIAL AND ECONOMICAL ANALYSIS OF THE CASE-STUDY COUNTRIES

Throughout the second part of this dissertation, we will try to answer some questions related to the development of Cape Verde, having in consideration a possible comparison with two of the most successful African *Small Insular Developing States* (SIDS), namely Mauritius and Seychelles.

We will start with a brief analysis of the social and economical situation of the three countries seeking to underline their key development elements. Sections 1, 2 and 3 correspond to the three case-study countries: Mauritius, Seychelles and Cape Verde, respectively. Each section will be divided into a brief economic overview, an analysis of the development strategies followed since Independence as well as an outline of a number of socio-economic constraints to growth and development.

1. Mauritius

The Republic of Mauritius is an archipelago located in Southern Africa in the Indian Ocean, East of Madagascar. It consists of a main Island, Mauritius and of a group of smaller islands, which include Agalega Islands, Cargados Carajos Shoals and Rodrigues, totalling 2,040 square kilometres of area and a coastline of 177 kilometres. Its population was approximately of 1.2 million people in 2003, divided into two main ethnic groups and two smaller ones. These are the Indo-Mauritian, representing 68% of the population, the Creole, standing for 27% of the population, the Sino-Mauritians, that correspond to 3% of the total population and the Franco-Mauritians, which represent only 2% of the total population[146].

[146] Data from the CIA (2003a).

1.1. Economic Overview

Since independence, in 1968, Mauritius has developed from a low-income[147], agriculture based economy to a diversified economy with growing industrial, financial and tourist sectors. Mauritius has now a middle income status with one of the highest GDP per capita[148] in Africa. Consequently, Mauritius is often seen as a developmental success story[149]. This is contrary to the predictions of the Nobel Prize Winner, James Meade, who had foreseen, in 1961, that the "*outlook for peaceful development is poor*" and that Mauritius would not find "*productive employment for its population without a serious reduction in the existing standards of living*"[150].

Annual growth has been between 5-6%, in average,[151] from most of the period since independence, a situation that is reflected by a more equitable income distribution, an increased life expectancy, lowered infant mortality and a much-improved infrastructure.

Mauritius has been following, over the past decades, an economic strategy based on diversification, human resource development and building competitiveness.

Sugarcane, a strong textile sector, a responsible fiscal management, the development of strategy centres on foreign investment and a growing electronic components industry are the basis of the country's economic growth. Furthermore, Mauritius is moving towards a service-oriented economy namely due to the development of the offshore and financial services as well as the intensification of the information technology sub-sectors, which are expected to represent an important escape route and a source of long-term growth[152].

[147] Its nominal per capita income was USD 680 in 1968. WORLD BANK (2002) data.
[148] In 2002, its GDP PPP per capita was USD 10.100 according to CIA (2003a) data. For the same indicator the WORLD BANK (2004a) presents a value of USD 10.810 and the WORLD BANK (2004c) a value of USD 9.577, at constant 1995 prices.
[149] See, for instance, WORLD BANK (2002) or WORLD BANK (2003a).
[150] MEADE, J. and others (1961), "The Economic and Social Structure of Mauritius". Methuen, London. Quoted on WORLD BANK (2002: 3).
[151] Data from the CIA (2003a).
[152] GoM (2003: 74).

1.1.1. Agriculture and Fisheries

Until recently, agriculture formed the backbone of the Mauritian economy and sugar dominated the sector[153]. However, with the increasing importance of tourism and light industry, the agricultural sector's contribution to GDP decreased from 22.5% in 1976[154] to 6.2% in 2002[155].

The vital importance of sugar stems from the sugar protocols signed under the Lomé Conventions. These protocols conferred Mauritius with a basic annual quota of raw sugar and guaranteed prices above world prices in the European Market. In 1995 Mauritius signed the Special Preferential Sugar Arrangement (SPSA) allowing a quota well above the country's production capacity for 5 years with significant beneficial price guarantees. Although this arrangement was renewed in 2001, the quota was drastically reduced and scheduled to be gradually eliminated in the following 5 years, in other words until 2006.

The agricultural activity currently faces a number of difficulties unrelated to adverse weather conditions, although cyclones have, periodically, damaged crops[156].

For instance, labour costs have been rising sharply, as have the prices of agricultural inputs and land, while producer prices have not kept in pace with these factors. Further problems affecting the sugar industry include low world prices, ageing machinery in factories and the high level of the sugar export tax, which was introduced in 1980. Additionally, the government has allocated insufficient resources to agricultural expansion.

Another problem concerning the sugar industry in Mauritius is the latent reduction of preferential access under the Sugar Protocol, due to the EU's liberalisation of its Common Agricultural Policy (CAP). The reduction of guaranteed prices due to WTO commitments is another important concern that, when combined with the latter, implies that Mauritius needs to significantly restructure its sugar industry.

[153] Sugar accounts for over ½ of agricultural output, 4% of GDP [EUROPA PUBLICATIONS (2004: 726)] and 25% of export earnings [CIA (2003a)].
[154] GoM (2003: 74).
[155] See Table 23. Data from the WORLD BANK (2004a).
[156] For instance, as a result of Cyclone Dina, in early 2002, sugar output declined by 16.4% [EUROPA PUBLICATIONS (2004: 726)].

The fishing industry in Mauritius is very limited and is being regenerated with assistance from Japan and Australia. Commercial fishing is gradually expanding and experimental farming of prawns has been introduced. There are hopes for export potential in this field.

1.1.2. Industry – Export-processing Zone

Until the 70s the industrial sector in Mauritius was limited to the import substitution of basic consumer products such as food, beverages, tobacco, footwear, clothing, metal products, paints and board for furniture [EUROPA PUBLICATIONS (2004)]. However, by 1986, exports from the Export-processing Zone (EPZ) had already replaced sugar as Mauritius' main source of export revenue. In 2002, manufacturing accounted for an estimated 20.29% of GDP and around 70.16% of exports [WORLD BANK (2004a)]. Furthermore, the contribution of the textile industry to GDP rose from 15% in 1968 to 22.5% in 2002 and the share of the EPZ in the GDP increased from 2.9% to 11.2% in that same period [GoM (2003: 74)].

This great increase in the manufacturing sector's importance is largely due to the country's need to diversify, decreasing the dependence on the sugar sector and simultaneously overcoming its limited domestic market and the high level of unemployment.

The government adopted a policy of export promotion by developing the EPZ[157], offering among other things, tax "holidays", exemption from import duties on most raw materials and capital goods, free repatriation of capital, profits and dividends.

Unlike other African EPZs, most investors in the Mauritian EPZ were nationals, namely those with ancestral origins in India, France or China, who were able to take advantage of the links with their countries of origin [WORLD BANK (2002: 3)], turning its ethnic diversity into a major economic asset.

The fast growing EPZ sectors have been textiles and clothing, which account for about 80% of total EPZ exports, more than 68% of EPZ enterprises and 91% of EPZ labour, making Mauritius one of the world's largest exporters of woollen goods [EUROPA PUBLICATIONS (2004: 725)]. Other rapidly growing sectors include electronic

components and diamond processing as emphasis has been put on the development of precision engineering and skilled crafts.

However and despite the positive impact of the EPZ sector on the economy, it has had a tendency to rely on currency depreciation as a means to maintain its competitiveness, failing to diversify in products other than textiles. Additionally, the EPZ has fallen short to develop intra or inter sectoral linkages, thus maintaining a low skill and low technology structure.

1.1.3. Tourism

Tourism is the third most important source of foreign exchange after textiles and sugar, being commonly referred to as the third pillar of the economy.

This sector has contributed significantly to the economic growth of the Mauritian economy, representing 11% of GDP in 2002[158], with Travel Services representing 54% of the commercial service export in 2002[159] and International Tourism Receipts corresponding to around 22% of total exports in 2001[160].

Consequently, tourism has been a key enabler of its overall development strategy[161]. Furthermore, it is a central economic activity due to the diversity of sectors it encompasses. As a result, the development of the tourist activity has always been the government's top priority and much effort is being put into realising the vision of Mauritius becoming the Top Tourism Business Hub in the region [GoM (2003: 62)].

More recently, the Government has focused its concern on the degradation of the quality of environment and, consequently, in line with Seychelles, the main policy has been one of quality rather than quantity.

In fact, to safeguard the natural environment of the island, the Government is implementing measures to curtail and, where possible, reverse environmental damage

[157] According to the WORLD BANK (2002), Mauritius was the first African country to create EPZs.
[158] GoM (2003: 62).
[159] Travel Services is an item that covers goods and services acquired from an economy by travellers in that economy for their own use, during visits of less than one year, for business or personal purposes. It includes goods and services consumed by travellers, such as lodging and meals and transport (within the economy visited) [WORLD BANK (2004c)].
[160] Data from the WORLD BANK (2004a).
[161] However, tourism also has some negative aspects attached to it. For instance, it has contributed to the increase of costly imports, especially foodstuffs, having, therefore, implications on the trade balance and on inflation.

caused by the uncontrolled expansion of tourism in the recent past. Accordingly, the government has, in essence, since 1990, ceased issuing permits to construct new hotels, creating a "Green Ceiling" in an effort to harmonise environmental considerations with higher rates of hotel room occupancy.

1.1.4. Financial Sector and Offshore Banking Facility

As part of a long-term strategy to establish Mauritius as an international financial centre, controls on the movement of foreign exchange were relaxed in 1986, although the Bank of Mauritius has intervened in the foreign exchange market to help maintain the value of the rupee against the dollar.

While the financial sector has been predominantly focused on banking and insurance, there has been an outward orientation towards the offshore sector, whose contribution to the economy rose from 10.1% in 1992 to an estimated 16.8% of GDP in 2001[162].

An offshore banking facility was established in 1989 under the legislation adopted in 1988 and, by 1997, seven offshore banks were in operation [EUROPA PUBLICATIONS (2004: 728)]. More recently, the updated Companies Act and Financial Services Act of 2001 were introduced in order to encourage the country's development as a business and financial centre. For instance, the Mauritius financial services sector has actively sought to attract capital from Hong Kong, following its reversion to Chinese sovereignty in 1997. The island has become a significant provider of offshore banking and investment services for a number of south Asian countries as well as for countries in the SADC and IOR-ARC groupings.

More recently, the international community has become distrustful of the Offshore Financial Sector, a situation that has led the government to guarantee the country's international financial reputation leading to the strengthening of the legislative and institutional framework of the sector[163].

[162] GoM (2003: 3).

[163] Namely through the creation of the Mauritius Industrial Development Agency, the Financial Services Commission and Promotion Agency, the Financial Intelligence Unit and the Stock Exchange Commission

1.1.5. Infrastructure

Mauritius has made the most significant advances in the region in terms of computers, telephones and internet. Indeed, Mauritius regards IT as an area in which it can establish a comparative advantage and the government has announced its intentions to transform the island into an IT free zone, or in other words, into a Cyber Island.

Mauritius also hopes to capitalise the bilingual skills of its workforce by attracting call centre businesses and is also keen to establish itself as a shipping hub, a possible alternative to Durban for both cargo and cruise shipping, a situation that would imply the regeneration of its facilities.

On what concerns energy, Mauritius relies on imports[164] for most of its needs, with supplies coming from diesel powered thermal stations. However, due to the normally abundant rainfall, about 4% of electricity is generated from hydro sources [EUROPA PUBLICATIONS (2004: 727)].

The government encourages greater use of local and renewable energy sources for electricity generation, such as *bagasse*, an innovative source of energy. Currently, sugar estates that generate electricity from *bagasse* accounted, in 2001, for 92.1%[165] of indigenous production of electricity and studies are being carried out to establish it as a year round fuel, as it is currently only available in the harvesting season.

Studies on wave and wind power are also being carried out. However these sources of energy remain relatively costly and there is a difficulty in matching supply with demand patterns.

In terms of water supply and distribution, the number of households having piped water within their premises is 98.7%[166]. However, even though the present water treatment and water distribution infrastructure is sufficiently developed to provide for the country's needs, demand is clearly increasing and improvements in the management of the water resources are necessary. Accordingly, the government has prepared an integrated water resources plan that includes the construction of infrastructure, water demand management plans and more efficient use of water.

[164] Imports of mineral fuels compromised an estimated 11.2% of the value of merchandise imports in 2001. Data from EUROPA PUBLICATIONS (2004: 727).
[165] Data from EUROPA PUBLICATIONS (2004: 727).
[166] Data from the National Housing and Population Census Survey 2000 quoted on GoM (2003: 12).

In terms of sanitation, despite the fact that considerable effort has been exerted to promote the waste sector, public sewage coverage is still below 50% and mainly concentrated in the urban areas [GoM (2004: 12)]. The government's policy is to promote waste reduction, to minimise its generation and, whenever possible, to promote the adoption of environmentally friendly methods, as proper sanitation is also a guarantee for the sustainability of the tourism industry.

1.1.6. Social Indicators

Mauritius presents considerable progress in social conditions since independence. In fact, poverty in Mauritius has dramatically declined and today very few Mauritians live on less than US $1 a day[167].

A World Bank study[168] estimated that in the 2001-2002 period, 9.7% of the Mauritian population was poor and described the country's poverty as relative and regionally localised, namely in the rural areas. In other words, there are pockets of poverty and selected groups have not fully benefited from the country's strong growth [WORLD BANK (2002: 1)]. However, the nature and depth of poverty in Mauritius is clearly less severe that levels observed in neighbouring countries, as most of the poor have access to key social services. In fact, one could consider that it is more an issue of social exclusion than of utter poverty [WORLD BANK (2002: 1)].

Various poverty alleviation programmes have been introduced and, recently, greater emphasis is being placed on participatory approaches and community involvement in order to strengthen the capabilities of the poorest segments of the population by providing resources, credit, training and empowerment. However, lack of coordination and monitoring mechanisms imply that the programmes are not as effective as expected.

Furthermore, Mauritius is among the few African countries in Africa that has either met or is highly likely to meet all but one of the Millennium Development Goals

[167] Although Mauritius does not have an official poverty line and trends in poverty are hard to construct, the authorities use, for practical reasons, a poverty line of 50% of the median monthly per capita income. Notwithstanding, trends in poverty are hard to construct [WORLD BANK (2002)].
[168] Quoted in GoM (2003: 88).

(MGDs) by the year 2015, namely the goal of the reduction by 2/3 of the Infant Mortality Rate (IMR).[169].

On what concerns education, Mauritius is one of the few developing countries where education is provided free from pre-primary to tertiary level. The country's UNDP education index is 0.80[170], with the adult literacy rate being 84.8% and the gross enrolment rate 69%. Additionally, the Government's expenditure on education was about 3.4% of GDP in 1999[171] [WORLD BANK (2004a)].

However, even though Mauritius has been successful in reaching universal primary education, around 35% of students fail the primary education completion exam and, at secondary and tertiary levels, the net enrolment ratios are significantly lower than those required for economic growth [WORLD BANK (2002: 13)].

Mauritius is one of the most densely populated agricultural islands in the world [GoM (2003: 6)] and, consequently, has great problems with residential space and housing. This situation is exacerbated by the existence of a variety of competing uses, namely the high demand for hotel development. The existence of a National Physical Development Plan (NFDP) has had limited and ineffective results.

Unemployment is an important source of concern in Mauritius. In fact, despite strong economic growth, averaging just below 6% per year over the last two decades, a "U" curve phenomenon can be observed in the Mauritian unemployment [IMF (2003a: 4)]. The unemployment rate plunged from about 21% in the early 1980s to less than 4%[172] in the early 1990s, but this declining trend was reversed from 1990 to 2002. During this period, the rate of unemployment rose significantly having reached 9.2%[173] in 2002. According to the IMF (2003a), the majority of the unemployed are young, have never held a job, have failed primary or secondary education, have no technical or

[169] In fact, IMR currently stands at 17 deaths per 1000 live births, a number that is below the IMR of most middle income countries. Bringing the IRM down from 17 to 6 (below the level of the USA today) is considered unlikely given Mauritius' level of income and the existence of various pockets of poverty in selected areas of the country [WORLD BANK (2002: 8)].

[170] This index measures the relative realisation of a country both in terms of adult literacy and in terms of the gross enrolment ratio in all three levels of education. For more information on this index turn to UNDP (2003).

[171] This value is relatively lower than those presented in the 1990s, possibly implying that there has been a reduction in the weight of education in term of GDP. In fact, the government's expenditure on education was 5.5% in 1980. However, average values for the 1990-1992 period were around 3.88% of GDP, whereas values are above 4%, from 1993 onwards, being the highest value, 4.75% of GDP, achieved in 1996.

[172] 2.8% according to GoM (2003: 10) data.

[173] GoM (2003: 10).

vocational training and are single and family supported[174], a worrying situation for the future of the country and with impacts on social exclusion of youngsters.

The IMF (2003a: 16) concluded that there are two main causes for the rising unemployment. On one hand, there is a highly centralised wage determination system that limits the skill premium and results in job destruction in the traditional sector while, simultaneously, leading to insufficient job creation in the new technological sector. On the other hand, the Mauritian education system has failed to pass on from a low-skill-based labour force to higher skills that are needed by the emerging sectors, resulting in a skill mismatch problem.

Both unemployment and housing concerns are population problems that would have been much higher if the country had not been able to control its population growth rates. In fact, in 1959, population growth rates and the country's carrying capacity were worrying concerns that lead to some daunting conclusions[175]. However, one of the country's great successes in the period ranging from 1963 to 1972 was the population control. In fact, private family planning schemes, introduced in 1963, lead crude birth rates to drop from 40 per thousand to 27 per thousand in only seven years [WELLISZ and LAM SHIN SAW (1993: 235)].

1.1.7. Trade, Finance and Debt

The consistent visible trade deficits recorded in recent years have been caused by increases in EPZ imports for manufacturing inputs, a rise in imported fuel costs, disappointing sugar harvest and a fixed price for sugar exports to the EU currently below world prices [EUROPA PUBLICATIONS (2004: 727)]. However, since most of the country's import bills are denominated in US dollars and export receipts in Euros, the strengthening Euro helps the external account.

[174] Youth unemployment rates reach 40% for the age group below 20 and around 2/3 of the unemployed are younger than 25 [GoM (2003: 10)].

[175] Namely that the country would not be able to growth. For more information on this conclusion by Meade, turn to sections 1.1. and 1.2.1. in this Chapter.

The overall balance of payments presented deficits until 2001. Notwithstanding, the annual average values are negative, although decreasing, since 1975[176]. On what concerns the External Balance on Goods and Services as a percentage of GDP, it has presented, on average, a deficit, except in 2001 and 2002. Similarly to what happens to the Balance of Payments, the annual average values were negative although decreasing[177].

Mauritius is classified as a moderately indebted middle-income country and its credit worthiness is underpinned by its strong economic performance in the last two decades. The Government's budget deficit excluding grants in 2002 was 6.2% in 2002[178] [WORLD BANK (2004)], with Public and Publicly Guaranteed (PPG) Debt Service representing around 6.32% of exports of goods and services [WORLD BANK (2004c)]. Having in consideration that the total debt service represented, in the same year, 8.24% of exports of goods and services [WORLD BANK (2004c)], the public debt was the major component of the country's debt. Furthermore, interest payments had a significant impact on public finances as the PPG Debt Service represented, in 2002, 15.9% of central government current revenue [WORLD BANK (2004)], a situation that is corroborated by the fact that the Government's Primary Deficit[179] is only of 2.6% of GDP[180].

Total external debt is currently at about 40% of GDP[181] and 60.11% of exports of goods and services[182] and the domestic debt of the central government represents about 44% of GDP[183], implying that the sources of financing the deficit are quite balanced with foreign financing representing 0.79% of GDP[184] [WORLD BANK (2004a)].

[176] According to the WORLD BANK (2004), the annual average for the Current Account Balance, excluding net capital grants as a percentage of GDP was –7.6%, -1.0% and –0.5% for the 75-84, 85-94 and 95-02 periods, respectively.
[177] According to the WORLD BANK (2004), the annual average for the Resource Balance, as a percentage of GDP, was –7.9%, -3.2% and –1.3% for the 75-84, 85-94 and 95-02 periods, respectively.
[178] The annual average for the Government Deficit excluding grants, as a percentage of GDP, was -10.8%, -3.0% and -5.3% for the 75-84, 85-94 and 95-02 periods, respectively.
[179] Which excludes interest expenditures on both domestic and foreign debt and it may provide a more reliable indicator for monitoring fiscal stabilisation efforts with countries with large interest payments.
[180] See Table 32.
[181] According to WORLD BANK (2004a), the Total External Debt as a ratio of GDP was 39.78% in 2002.
[182] Data from the WORLD BANK (2004a).
[183] Data from the WORLD BANK (2002).
[184] More data on these indicators can be seen on Table 32.

The budget deficit reached around 6% of GDP in 2002[185]. However, the government acknowledged that such a large deficit was unsustainable in the long run and aims to reduce it to 3% of GDP by 2006 [EUROPA PUBLICATIONS (2004: 728)].

1.2. Development Strategies in Mauritius

Between independence and 1990, Mauritius' economic growth was primarily driven by the accumulation of inputs, with the use of more labour and capital leading to higher production. In the 1990s, however, growth was mainly stirred by strong increases in productivity. Total factor productivity (TFP) increased by an average of 1.4% per year[186], being compared favourably even with increases in TFP of East Asian countries such as Korea or Malaysia.

According to the WORLD BANK (2002: 8), Mauritius did not always follow orthodox economic policies. For instance, while exports clearly played the major role in the so called "Mauritian Miracle", views differ on the effectiveness of Government interventions in key markets, namely on that of essential commodities or the labour market, with trade practices being fairly restrictive [SUBRAMANIAN and ROY (2001)].

1.2.1. Import Substitution Strategy (1963 – 72)

After the World War II, the Labour Party took office in Great Britain. This resulted in an increase in Mauritius' autonomy, as well as the democratisation of the regime with the country's first general elections under universal suffrage in 1959.

In terms of economy, economic policy and long-term planning were introduced and the Central Development and Welfare Committee was established. Additionally, the Government of Mauritius appointed, in 1959, a Committee to "*make recommendations concerning the action to be taken in order to make the country capable of improving*

[185] This is the value for the Budget Deficit including Grants. The value of the Budget Deficit including grants, as a percentage of GDP, is 6.2, whereas the value for the Primary Budget Deficit, excluding interest payments was only 2.64%, implying the relative weight of the interest payments. All values are found in the WORLD BANK (2004).

[186] TFP measures efficiency in the use of labour and capital. It embodies, among others, technical progress and a better allocation of resources. Data from the WORLD BANK (2002: 8).

the standard of living of its people, having regard to the current and foreseeable demographic trends"[187].

The recommendations present in the Meade Report[188] lead to the introduction of the Import Substitution Strategy at the beginning of the 1960s, having started with the adoption of various measures to diversify production. For instance, a 5% levy on sugar exports was introduced in 1961 and raised to 6% in 1971. In 1964, the Development Bank of Mauritius was established to provide long-term financing for industry.

In the late 1960s and early 1970s, and despite the colonial government's attempts, the economic fortunes of Mauritius were still closely tied to those of the sugar industry. In fact, the terms of trade were deteriorating, leading to serious economic difficulties. Furthermore, the country faced a rapidly growing population and labour force. Notwithstanding, the newly independent government decided to hold a steady policy course and maintained the general strategy adopted by the colonial regime [WELLISZ and LAM SHIN SAW (1993: 231)].

The most important measure, introduced in this period of import substitution, was the Industrial Development Scheme, offering the holders of Development Certificates (DC) a holiday from corporate taxes and from taxes on dividends. At the time, it gave companies the possibility to apply for protection from foreign competition, either in the form of higher tariffs or ,since 1969, a quota. Furthermore, under the initial scheme, capital goods could be imported duty-free for a period of three years and certificate holders could apply for an exemption from duties on raw materials.

This scheme was to be applied only to industries "*of importance to the island's economy*" [WELLISZ and LAM SHIN SAW (1993: 233)]. However, the criteria for attribution were vague and arbitrary and it resulted in the promotion of several industries of import substitution[189]. In fact, the same authors considered that Mauritian entrepreneurs lacked production or marketing experience and seemed unlikely to go

[187] MEADE, J. and others (1961: XV), "The Economic and Social Structure of Mauritius". Methuen, London, quoted on WELLISZ and LAM SHIN SAW (1993: 230).

[188] It proposed, among others, wage restraint, agricultural diversification, a rapid change in industry structure, overseas welfare assistance, a system of welfare benefits for the unemployed, emigration of workers and an effective family planning system [SUBRAMANIAN and ROY (2001: 10)].

[189] These included, for instance, food processing, furniture making and the production of plastic products, dry cells and paint.

into export directed manufacturing. Furthermore, there seemed to be a ready market for import substitutes, which, despite being small, was highly protected.

Consequently, this initial import substitution industrialisation, more than an active government choice, was a natural response to the market's specificities. The fomented industries[190] relied mainly on relatively capital-intensive methods. This situation was only possible given their possibility to import capital goods duty-free and taking in consideration the government's high wage policy based on the introduction of minimum wages, though, initially, it was only applied to the sugar sector.

1.2.2. Openness Strategy: From 1972 onwards

The period ranging from 1972 to 1979, was one of unprecedented economic growth for Mauritius, triggered by a sugar boom that improved the country's terms of trade[191]. The rapid growth of export-oriented manufacturing and an expansionary budgetary policy also contributed to prosperity.

With the sharp rise in sugar profits during the boom years, gross savings rose[192] and more capital was available for investment as, simultaneously, investment in foreign plantations was impeded by capital export controls.

As traditional investment opportunities were limited, the easy import substitution possibilities almost exhausted and the domestic industry was adequately capitalised, new investment opportunities were required. The Export-processing Zone (EPZ) law adopted in 1970 opened these up[193], fomenting export-oriented industries and based on the fact that manufactured products had free access to the EEC market under the Lomé Conventions[194].

[190] According to WELLISZ and LAM SHIN SAW (1993), more than 100 DCs were granted during this period.
[191] In fact, world sugar prices began to rise in 1971 and, between 1972 and 1975, producer prices on Mauritius more than tripled [WELLISZ and LAM SHIN SAW (1993: 253)].
[192] According to WELLISZ and LAM SHIN SAW (1993: 240), gross savings rose from an average of 12.8% of GDP in 1964-66 to 15.2% in 1970-72 and to a peak of 34.2% of GDP in 1974-75.
[193] This law exempted from all import duties enterprises producing solely for export, regardless of their location. Foreign stockholders were allowed to repatriate profits as well as the original capital investment and EPZ enterprises received a ten year tax exemption. A similar law was adopted for the tourism industry.
[194] According to SUBRAMANIAN and ROY (2001), the Preferential Access to Europe under the Lomé Conventions and the protectionist trading rules allowed under the WTO until the Uruguay Round, were fundamental in ensuring the profitability of the export sector.

According to WELLISZ and LAM SHIN SAW (1993: 241), it is estimated that, during the 1971-76 period, sugar profits financed 50% of capital formation in the EPZ sector.

The Mauritian development strategy became a mixture of import substitution and export-oriented industries. In fact, as described by RODRIK (1999)[195], this was a policy of heterodox opening that ensured that returns to the export sector were high, while, simultaneously, it prevented domestic resources from being diverted into the inefficient import competing sector. Consequently this policy avoided the spilling over of the restrictive trade regime[196] into the export sector.

Additionally, and according to SUBRAMANIAN and ROY (2001), Mauritius managed to maintain the neutrality of incentives between its export and import competing sectors, mainly through a high dose of intervention on both imports and exports. On one hand, imports were restricted through high trade barriers and, on the other hand, extensive and selective intervention occurred in the export sector[197], in order to offset this intervention.

In this period, the government also sought to favour labour by raising real wages and extending social services. Important investments were made in health and educational facilities, in water and sewerage and in low-income housing. These policies proved difficult to reverse and, after the boom, subsidised social expenditure, both on capital and on the current account, continued to rise with impacts on the budget deficit.

To subside such an increase in expenditure the government introduced a tax on sugar[198], resorted to domestic borrowing and imposed price controls in order to mitigate inflation and to preserve the trade balance in face of budgetary deficits. Nevertheless, there was a drain on foreign reserves. Furthermore, after 1976, the rate

[195] RODRIK, D. (1999), "The New Global Economy and Developing Countries: Making Openness Work". *Overseas Development Council*. London. Mentioned in SUBRAMANIAN and ROY (2001).

[196] In effect, although Sachs and Werner categorised Mauritius as an open economy protection in the country was high and dispersed throughout the economy during the 1970s and 1980s. For instance the average tariff exceeded 100% in 1980 and it was still very high, averaging 65%, at the end of the 1980s. Moreover, until the end of the 1980s, there were extensive quantitative restrictions in the form of import licensing, covering nearly 60% of the imports. Data from SUBRAMANIAN (2001) and SUBRAMANIAN and ROY (2001).

[197] These included, for instance, duty free access to all import inputs ensuring the export sector's competitiveness. A variety of tax incentives that subsidised and helped to offset the impact of the restrictive trade regime were also introduced and the segmentation of the labour market that introduced more flexible labour rules to EPZ firms proved to be effective in giving firms an incentive to produce in the export sector.

[198] During the boom, this tax had little economic impact as it merely forced the large estates to share their rents with the State. However, with the end of the boom, the tax affected the most efficient area of the sugar industry, with large states suffering large losses and becoming progressively decapitalised [WELLISZ and LAM SHIN

of growth of the EPZ industries declined drastically due to falling sugar profits and a worldwide recession.

Consequently, Mauritius, due to its economic difficulties, ceased to be an adequate country to invest in and, although extensive foreign borrowing by the government delayed the effects, by the end of the decade the mounting foreign debt had brought the country to the verge of bankruptcy [WELLISZ and LAM SHIN SAW (1993: 236)].

The policy of fiscal expansion and direct controls at the end of the sugar boom proved to be unsustainable and, in 1979, the government turned to the IMF and the WB for aid. A number of agreements were negotiated with the IMF in order to stabilise the economy. The country's development plans were revised and a structural adjustment loan was negotiated with the WB.

These reforms were eminently successful, but their implementation process was stressful [GULHATI and NALLARI (1990: 40)] due to bad weather and external economic shocks such as the deterioration of the terms of trade.

The series of agreements with the IMF called for the liberalisation of the economy, a structural reform, the reorganisation of the public finances and also resulted in a policy change in agriculture, manufacturing and tourism with a close monitoring of public sector investments.

The government abolished the quantitative restrictions on imports and reduced the number of manufactured products subject to price controls[199]. There was also a partial relaxation of quantitative credit restraints, giving preference to the export-oriented industry. Furthermore, to reduce dependence on import duties, the government introduced a 5% sales tax and improvements in the tax collection system.

On what concerns the public finance, the reform process involved four means to reduce the fiscal deficit, namely retaining current expenditures, making parastatals competitive and self-reliant, raise revenues through a tax reform and improve the management of aid and debt.

SAW (1993: 239)].

[199] Only rice, flour, bread, potatoes, sugar, frozen fish, cement and petroleum products remained under government control [WELLISZ and LAM SHIN SAW (1993)].

In regards to agriculture, the aim of the reforms was to improve the productivity of the sugar sector, releasing land for local production of imported food items. In the tourist sector, the government decided to improve air access by introducing chartered flights and expanding hotel capacity.

The most successful reform involved, according to GULHATI and NALLARI (1990: 53)], the manufacturing sector. The government focussed its efforts in attracting foreign investment and in strengthening the EPZ's international competitiveness. The Mauritius Export Development and Investment Authority (MEDIA) was established in 1985 to attract foreign investors and to develop industrial sites. The DBM established an export credit guarantee scheme covering banks against the risk of default by exporters and a credit insurance scheme that protected exporters against the risk of default by importers.

The current strategy has been one of sustaining the past achievements and of proceeding with the country's economic diversification that has been the key to the country's success, as it led to near full employment, higher incomes and an improved standard of living. Furthermore, it also helped to reduce the degree of vulnerability associated with the specialisation in a single commodity export base such as sugar.

The present strategic approach is to embark towards a knowledge-based economy, with emphasis on the Information and Communication Technology (ICT) sector as one of the pillars of the Mauritian economy and as a means to meet the increasing challenges of a globalised economy.

1.3. Socio – Economic Challenges

The present state of development of Mauritius is proof of the enormous progress that has been achieved over the past decades, despite the prevailing competitive international context. Mauritius has clearly achieved an admirable level of social and economic development, a situation that is visibly illustrated in the UNDP Human Development Indicator (HDI), where it ranks 62nd in the World[200] and 3rd in Africa.

[200] UNDP (2003).

However, despite its impressive post-independence performance, the Mauritian economy is now facing a number of short and medium term challenges, both internal and externally [EUROPEAN COMMISSION (2001: 4)], which essentially relate to productivity, the erosion of trade preferences, rising unemployment and inflation, exchange rate fluctuations or the high trade and budget deficits.

As a SIDS, Mauritius is typically constrained in its economic development by a combination of factors such as a small domestic market, diseconomies of scale, remoteness from sources of raw materials and major export markets. Other factors of vulnerability include the high cost of freight, limited resource endowment, a narrow production base, dependence on a few export commodities, high infrastructure costs, proneness to natural disasters and the inability to influence the world prices, all of which have been profusely discussed in Part I.

Apart from SIDS-related factors, there are issues that are country specific and that need to be solved so that the country is able to overcome the challenges it faces and able to maintain its previous levels of development.

Adding to the above-mentioned constraints, the present world trend is one of recession, implying that all countries currently face difficulties.

1.3.1. Constraints to Growth and Development

Despite its relatively favourable economic performance, Mauritius faces a number of problems and uncertainties.

One of the main concerns is related to a decrease in growth rates after decades of excellent performance, with average annual growth rates of 6.5% in the 1985-94 period, whereas the 1994-02 period presented lower growth rates, averaging 5.3%. In fact, the present growth rate is around 4.4%[201], but also inflation rates aspire to a worrying 6.4%[202] implying negative real growth rates.

Another important concern is the government's public finance. In fact, the low level of tax revenues, combined with increased levels of public spending, is pressuring the

[201] Average Annual Growth Rate calculated from Real GDP at constant 1995 prices. Data for 2002 from the WORLD BANK (2004).

[202] Data from the CIA (2002a). According to the WORLD BANK (2004) the Inflation Rate calculated using the consumer prices was 6.72% in 2002. See Table 22.

budget, with tension increasing between low taxation to encourage private investment and the large public investments planned by the government. Consequently, there is a need to overcome the budgetary deficit that is currently around 6.5%. Furthermore, Mauritius still has a large public enterprise sector that relies on financial support from the government, presenting large debts[203].

Equally important is the weight of the public debt, which currently represents more than half of the GDP. Furthermore, interest payments on the public debt were equivalent to 3.3% of GDP and 13.7% of total government spending[204], in 2001-2002, and will tend to grow with the successive budget deficits and as more borrowing is necessary to pay for the sizeable and growing interest payments.

An additional prominent concern is the rate of population growth of around 1% in 2002[205] that projects a population of more than 1.3 million people by 2015[206]. This demographic trend is expected to pose considerable economic challenges. In fact, the pensioner support ratio[207] is expected to drop drastically from 7.5 in 1998 to 4.5 in 2018 and 2.8 in 2038[208] and, as a result, there will be a heavy burden on the budget to meet the escalating cost of basic pensions, possibly requiring higher taxes.

The EPZ sector, which has led the islands' industrial expansion in recent years, slowed down in the late 1990s, mainly due to the decrease in the value of the Euro against the US Dollar, as exports are primarily Euro-dominated, with consequences on unemployment. Nevertheless, more recently, the currency market has favoured Mauritius, as the Euro has increased its value in face of the Dollar, a situation that apart from having positive consequences on the External Account, as mentioned in section 1.1.7, also contributes to the reduction of export costs, implying an increase in sales to Europe.

[203] For instance, the State Trading Corporation (STC) and the Central Electricity Board (CEB).
[204] If the parastatals are included, then the national debt reaches 63% of GDP, implying the seriousness of the matter [GoM (2003: 14)].
[205] Data from the WORLD BANK (2002a). See Table 10 for average growth rates in the 75-84, 85-94 and 95-02 periods.
[206] Data from the UNDP (2003), Table 5.
[207] Defined as the number of persons of working age for every old-age pensioner.
[208] GoM (2003: 14).

Additionally, the EPZ's performance is expected to rise due to the possibility to export duty-free textiles and manufactures to the USA under the African Growth and Opportunity Act [EUROPA PUBLICATIONS (2004: 725)].

Furthermore, as a result of the increasing labour costs verified, many firms in the EPZ are using more capital-intensive technologies, with negative consequences on unemployment, which is rising quickly. Additionally, the demand for skilled personnel in various business sectors has exceeded the number of suitable candidates and the government had to start granting labour permits to non-nationals possessing the relevant professional qualifications.

Another EPZ related problem is linked to the changes in the rules of the WTO and the subsequent implementation of the worldwide Multi-Fibre Agreement, which will lead to increased international competition in the main EPZ export sectors. Furthermore, future alteration of its privileged access to the EU markets is expected.

Mauritius is faced by increasing competition in the international textile market and exports by lower cost producers such as China or India could endanger the Mauritian comparative advantage. These reductions in privileges would necessarily have to be accompanied by an increase in competitiveness.

Other causes for concern include, for instance, the attempt to diversify into the financial sector. Despite the efforts that have been made so far, the Financial Service Sector is constrained by a shortage of very high skilled manpower, a high market concentration and the excessive volatility, poor liquidity and inadequate disclosure and surveillance are preventing the stock market from playing a more effective role.

A more long-term cause for concern is the gradual decline of FDI during the 1990s, although this situation improved in 2000. The main reason for this decline is that Mauritius is no longer competitive with regards to its labour costs. Although Mauritius is slowly moving away from the labour intensive sectors of its economy, increasing costs and logistical problems are reducing the country's competitiveness[209].

[209] Although Mauritius appears in the 49th position in the 2004 Growth Competitiveness Index (GCI) Rankings, its overall competitiveness has been falling. In fact, in just one year Mauritius fell 3 positions in the ranking, from 46th to 49th, being overtaken, for instance, by Mexico [WORLD ECONOMIC FORUM (2004a)]. In terms of the 2004 African Growth Competitiveness Index Mauritius ranks in 4th position, after Botswana, Tunisia and South Africa. Its sub-index position range from 2nd position in terms of the technology index to 9th position in terms of the macroeconomic environment index. Its public institution index is ranked in 6th position [WORLD ECONOMIC FORUM (2004)].

Additionally, Mauritius' infrastructure continues to need heavy investment in projects such as roads, telecommunications and public utilities, which would help to increase the country's attractiveness.

This decrease in FDI is even more worrying if one takes in consideration that the preferential trading arrangements that have partially compensated for the lack of competitiveness and comparative advantage in the country and have, as a result, played an important role in attracting investment, are being eroded and will eventually end. Consequently it is imperative that Mauritius has a set of investment incentives geared at attracting and retaining investment.

1.3.2. Sustaining Social and Economic Development

Starting from a low productivity sugar dominated agricultural sector in the 1970's, Mauritius achieved rapid growth and an enviable developmental transformation, becoming, within a short span of time, a significant exporter of manufactures with an emerging service sector. However, presently, the country's major challenge is to sustain what has been achieved [EUROPEAN COMMISSION (2003: 3)].

In fact, along with its strengths, the country still has some weaknesses and in order to sustain its competitiveness in a more open global economy, Mauritius has to address the challenges that lie ahead and take the necessary steps to further modernise the economy.

As with many other SIDS, such as Seychelles, the preferential access to markets has played a significant role in the economic and social development of Mauritius, which, undeniably, was one of the basic ingredients of its export led strategy. However, the major developments that are taking place in the international scene in the face of increased globalisation, liberalisation and regional integration are eroding the favourable external environment so far enjoyed and negating much of the efforts of Mauritius.

According to the GoM (2003: 84), this new combination of circumstances have threatened the very viability of Mauritius' economic base, putting at stake the political and social stability of the society. This erosion of trade preferences has major

consequences on the sugar industry[210], textile manufacturing and tourism industry, the main propellers of the economic activity in the archipelago.

The widening of economic and social disparities, caused by the decreases in economic growth experienced, has accentuated the problem of social exclusion and marginalisation. For instance, and despite the good economic results, recent poor weather conditions and declining sugar prices have slowed economic growth leading to some setbacks in the standards of living of the poorer section of the population, namely the creole community.

Equally important is the need to overcome the existent pockets of poverty and to combat the evidence of signs of deterioration of standards of living and of growing social inequality[211], despite the general rise in living standards over the past two decades. As already mentioned in section 1.1.6., in the drive for economic development, the social provision of certain sectors has fallen behind and social policy has failed to keep up with societal changes [EUROPEAN COMMISSION (2001a: 1)]. Consequently, there is now an urgent need to alleviate poverty to those who have not benefited from the country's overall economic growth.

Therefore, there is a need for Mauritius to overcome its constraints and maintain its sustainable developments achieved so far, as problems related to social cohesion and integration can interfere in the economic and political stability of the country, contributing, simultaneously, to the fragility and vulnerability of the country.

As there is a clear risk that pressure for greater competitiveness and external economic and political pressures might hamper national sustainable development, the government needs to take effective and coordinated action, targeted at clearly defined priorities.

[210] On what concerns the sugar industry, the reality to be faced by Mauritius by 2008 is one of reduced prices for an industry. The effects of an estimated 25 to 30% fall in sugar prices [GoM (2003: 5)] will surely have some negative consequences on the economic performance of Mauritius.

[211] For instance family breakdowns are more frequent, criminality and juvenile delinquency are rising and so is drug addiction and the number of abused women and children. School dropouts are also on the rise and social inequalities were the basis of the 1999 unrest [EUROPEAN COMMISSION (2001a)].

2. Seychelles

Seychelles is an Eastern African archipelago state located in the South Western Indian Ocean, Northeast of Madagascar. It is made up of 115 islands, totalling 455 square kilometres of area and a coastline of 491 kilometres. The archipelago is divided into two distinct groups of islands: one group made up of 43 granitic islands, with mountainous peaks and narrow coastal strips and another group made up of 72 low lying coral line islands, with an average elevation of 1.6 meters above mean sea level[212].

Its population was approximately of 80 thousand people in 2003, consisting of a mixture of French, African, Indian, Chinese and Arabs [CIA (2003b)] that arrived to the islands over the centuries since is discovery.

2.1. Economic Overview

Since independence, in 1976, Seychelles has experienced reasonably equitable economic growth with significant progress in social conditions, which compare favourably with those of other upper-income countries.

Seychelles has placed great emphasis on social justice and on human capital as the basis of a dynamic growth and huge socio-economic investments were made over the years. Its results are clearly illustrated by the HDI, where it ranks 36th in the World and 1st in Africa, followed by Libya in 61st place[213]. Chronic poverty is non-existent and there is excellent access to electricity, potable water and modern communications. Furthermore, Seychelles has the highest per capita income in Africa.

2.1.1. Agriculture and Fisheries

As the area of cultivable land is limited to about 6.000 ha. of Seychelles' total land area (about 2.22% arable land and 13.33% used for permanent crops[214]) and the soil is often poor and sandy, it is unlikely that self-sufficiency in agriculture will ever be

[212] Data from the GoS (2004).
[213] UNDP (2003).
[214] Data from the CIA (2003b).

reached. Consequently, the islands are heavily dependent on imported food[215] and the government is seeking to stimulate greater self-sufficiency and is encouraging production in several sectors.

Since 1993, and in accordance with the government strategy for reduced state involvement in the economy, the Ministry of Agriculture started to withdraw from the management of its five state-owned farms, whose profitability had been surpassed by the rising cost of subsidies and reduced productivity. At the time, agriculture accounted for 4.17% of GDP, whereas in 2002 agriculture has reduced its weight to only 2.88% of GDP, a situation that is expected given the country's development path[216].

Notwithstanding, and despite this decrease in economic weight[217], the country's food production per head increased at an average annual rate of 2.2% in 1990-2001 period (compared to a 0.2% decline for sub-Saharan Africa) [EUROPA PUBLICATIONS (2004: 959)], with production increasing in horticultural products, eggs, poultry and pork, mainly to satisfy demand in the tourism sector.

On what concerns production of traditional crops such as coconuts, copra or cinnamon, these have been affected by the high cost of labour that has turned them non-competitive to the world market.

As regards to fishing, this sector represented 1.22% of GDP in 1999[218]. Seychelles has a modern fishing industry operated by the Fishing Development Corporation (FIDECO), concentrated on industrial tuna fishing through joint-venture operations. In 1995 the US multinational foods group H.J. Heinz acquired a 60% interest in the tuna-canning factory, with the Government retaining a 40% holding in the company now called the Indian Ocean Tuna Co.

[215] Food imports accounted for 21.9% of merchandise imports in 2002, a value above that registered in 1980, when food imports represented 20.8% of merchandise imports. Data from the WORLD BANK (2004c). See Table 31. Additionally, and according to the GoS (2004: 4), Seychelles imports roughly 90% of what it consumes.

[216] This reduction is even more visible when one takes into account that in 1980, agriculture accounted for 6.84% of GDP. Data from the WORLD BANK (2004a). See Table 23.

[217] Such positive results in food production were due not only to the reduction of State Intervention, but also to substantial financial assistance to an integrated agricultural development project to develop roads and irrigation facilities, provided by the African Development Bank (ADB).

[218] Own calculations, based on data from the IMF (2000: 38). Fishing accounted, in 1999, for 39.8 million of Seychelles rupees of the total GDP that amounted, in that year, 3,275 million of Seychelles rupees of at current market prices.

Seychelles is now the largest centre for tuna processing in the Indian Ocean, and the 3rd largest tuna cannery in the World. Exports of canned tuna contributed 93.5% of the total value of merchandise exports (including re-exports) in 1999 [EUROPA PUBLICATIONS (2004: 959)] and about 99% of the tuna produced at the factory is exported to Europe, through the port of Victoria, which has now become the principal centre in the Indian Ocean for tuna transhipment.

This industry is the primary foreign exchange earner in the country and has allowed the technology transfer of sophisticated canning and processing machinery and more importantly the transfer of knowledge concerning market opportunities, management and production techniques [GoS (2004: 5)]. Furthermore, the tuna industry envisages indirect benefits such as the prestige of having a globally recognised multinational company, the H. J. Heinz Company.

2.1.2. Tourism

The tourism industry, that only began in 1971 when the Mahé international airport was inaugurated (totalling 3,175 visitors that year), is now one of the main economic sectors of the country. In fact, the economy is heavily dependent on tourism, which provided more than 8% of total GDP in 1999 [EUROPA PUBLICATIONS (2004: 960)]. Furthermore, the Tourism Services represented 55.3% of commercial service exports[219] and international tourism receipts amounted to 22.7% of total exports[220] in 2002. Notwithstanding, it has been estimated that more than 60% of gross earnings from tourism leave the country as payment for imported food and other goods, and by way of remittances to tour operators [EUROPA PUBLICATIONS (2004: 960)].

Since the mid-1980s, the Government has rehabilitated and improved existing tourist facilities and developed new attractions, including a craft village, a national aquarium as well as historical sites. In addition, and in accordance with other actions for the reduction of state intervention in the country, the Government has dissociated from most of its parastatal holdings in the tourism sector, since 1993, whilst foreign investment has been actively sought.

[219] WORLD BANK (2004a).
[220] WORLD BANK (2004c).

Seychelles has developed an extensive network of international air links and a number of flight agreements with charter flights, previously discouraged, being now welcome. Furthermore, the country is hoping to become a centre for aircraft registration, which will be translated into another source of financing.

The tourist sector is considered to be under performing due to price competitiveness, especially in the three and four star categories[221] and, lately, the Government has hoped to diversify the country's customer base through, for instance, tapping the Far East market and attracting visitors from South Africa or North America. Furthermore, the government is actively seeking to attract an increasing proportion of visitors interested in the ecological aspects of the archipelago and encourages upper income brackets to visit Seychelles.

In an attempt to address the new challenges of this sector, attention has been focused on the tourism potential of the outlying islands, being the idea is to spread facilities and to ensure that the environment is not harmed. Furthermore, a new emphasis on quality and not quantity tourism, where market niches are important, was introduced.

The Government has estimated the islands' maximum and sustainable tourist capacity at 200.000 visitors/year and has introduced a series of new taxes on the tourism industry (including a hotel license fee, levied according to the number of beds per hotel and the pull back in the exception of 7% tax on goods and services for five-star luxury hotels).

However, and after signing the World Tourism Organisation's Global Ethics for Tourism, the Ministry of Finance affirmed that it would welcome the development of a maximum of 15 new hotels, a situation that is considered to be inconsistent with sustainable tourism sought after.

2.1.3. Offshore International Trade Zone

Because of its excessive dependence on tourism and fisheries, the government is trying to find ways of broadening its economic base and is doing so through the so called

[221] Seychelles appears to be 20-40% more costly than Mauritius in the three and four star hotel category, although Seychelles' holiday packages in peak season to four and a half or five star hotels, including airfares, are insignificantly different to a comparable package in Mauritius [IMF (2000)].

"third pillar". The idea is to turn Seychelles into an international business centre for financial services, trading and transhipment.

The government introduced a package of commercial legislation called "Make your mark in Paradise" at the end of 1995, so as to make the environment attractive for foreign investment. This package included the International Business Companies (IBC) Act, where the conditions for establishing a company in Seychelles were set out.

A lot of effort was put into creating the Seychelles International Trading Zone (SITZ), so as to take advantage of the movements of goods between Asia, Africa and Europe, given that Seychelles is a multilingual environment, with a stable environment and advanced telecommunication services. The Seychelles International Business Authority was set up to regulate all the activities in the trading zone.

The government wishes to attract projects involving light assembly that have a reduced impact on the environment, as well as projects related to the redistribution of goods from Seychelles manufacturing and processing, geared predominantly to the export market. Other projects include aircraft and ship registration as well as offshore banks and related institutions.

Nevertheless, and according to EUROPA PUBLICATIONS (2004: 961), Seychelles' desire to become and international business centre has, so far, gained limited momentum. Additionally, it is too early to measure any potential impacts on diversification [EUROPEAN COMMISSION (1998: 57)], as most of the advantages to the economy are indirect, and consequently difficult to assess.

Furthermore, recent worries, related to the safeguard of the international banking and financial system and the prevention of financial and tax crimes, have resulted in the creation of new regulatory agencies. The costs entailed act as entry deterrents and are far more complicated to overcome for less established offshore sectors such as Seychelles.

2.1.4. Infrastructure and Manufacturing

The network of roads is generally good and an improvement programme is underway. The international airport of Mahé has been extended and its runway has been

strengthened to bear larger planes such as the Boeing 747s and a new domestic terminal has been built. There are also airstrips on several outlying islands.

Seychelles' major infrastructural project, the Mahé East Cost Development Plan, includes the modernisation and expansion of Victoria Port and the construction of a new road liking Victoria to the airport.

In what concerns energy, the Seychelles Electricity Corp. was set up in 1980 as a parastatal organisation that was to finance its own recurrent costs and with power supplies generated entirely from petroleum[222]. However, as Seychelles has one of the highest per capita energy consumption levels in the world in the transport sector [GoS (2004: 32)], the Seychelles Energy Policy was launched in 1999, aiming at the adoption of energy efficient and environmentally sound technology, strengthen energy management and educate energy consumers on the importance of energy conservation. Studies have also been conducted on the use of Windmills, solar and wave power for electricity generation. However, the biggest challenge in the promotion of the use of renewable energy is the high cost of the technology and the comparatively higher costs of renewable energy when compared to fossil fuel.

Despite abundant rainfall, Seychelles suffers from a scarcity of water resources that often result in serious water shortages that affect domestic and industrial consumers[223]. Safe yield of existing water resources is below demand and the tourism industry is a very intensive consumer of water.

The recurring problem of water shortages was eventually eased by the completion of the Baie Lazare water supply scheme, in the south of Mahé, with capacity to supply 18,000 people in the Victoria area. However, many factors constraint the development of increased storage capacity, namely the high per capita cots of such large scale infrastructure, implying that the government remains the sole significant investor in this sector. As a result, investment tends to be insufficient as public funding is limited and there is great competition in terms of investment in social projects.

[222] For instance, mineral fuels accounted for 10% of the value of total imports, in 1999. Notwithstanding, the vast majority of fuel imports are re-exported (as bunker sales to visiting ships and aircraft and exports of refined petroleum products), having contributed 21.9% of total export earnings in 1998. In fact, Seychelles hopes that its fuel import bill will be fully met by proceeds of re-exports [EUROPA PUBLICATIONS (2004: 960)].

[223] For instance, problems related with the water shortages in 2001 resulted in the largest private company Seybrew, a soft-drink and beer producer, being forced to suspend bottling production.

On what concerns sanitation, although almost all households are served with these services, less than 50% are connected to centralised systems and the sanitation system, essential to prevent pollution of surface and ground water, especially where hostels are developed, is operating below efficiency levels[224].

As regards to manufacturing, this sector accounted, in 2002, for 18.2% of GDP, a percentage that has been on the rise since independence[225]. Several small industries have been established in the country, most of which based on a import substitution logic[226], including brewing, plastic goods, salt, coconut oil, soft drinks, detergents, cigarettes, soap, furniture, paints, television assembly as well as animal feed, meat or dairy products [EUROPA PUBLICATIONS (2004: 960)].

More recently, a series of incentives were introduced to aid small businesses to establish themselves and to compete both nationally and internationally, representing a clear cut with the past. In fact, special attention was given to export promotion in detriment of import substitution. An Export Development and Promotion Facility and an Export Marketing Fund were introduced and, additionally, and as part of a new trade tax concession, export businesses were able to claim a full refund on tax trade.

Consequently, industries such as cinnamon essence distilling, boat building, printing and steel products, fish processing and handicrafts for the tourist industry were developed.

2.1.5. Social Indicators

As already mentioned, Seychelles presents significant progress in social conditions and these compare favourably with those of other upper-income countries.

On what concerns education, its UNDP education index is 0.87[227] with the adult literacy rate being 91% and the gross enrolment rate being considered at 78%.

[224] This is so due to inadequate institutional capacity as well as limited human resources in terms of trained personnel. Other concerns include lack of sufficient equipment and financial resources.

[225] In fact, manufacturing accounted for 7.38% of GDP in 1980, a value that had increased 2.5 times in twenty years. In 1993, manufacturing represented 10.6% of GDP, implying that the period with the largest increase was the 90s. Data from the WORLD BANK (2004a). See Table 23.

[226] Initially, the option for import substitution was based on the Socialist Development Strategy (See Section 2.2.1.) that was supported by the idea that developing countries should not depend on the exterior to grow, implying a need for auto-sufficiency. Nowadays, this option is essentially based on the need to overcome the amounting trade deficits the country faces.

Education is free and compulsory for children between 6 and 16 years of age being English the language of instruction.

The duration of the primary school is six years, while that of general secondary education if 5 years, of which 4 are compulsory. Pre-primary and special education facilities are also available. University education is mainly abroad although the Seychelles polytechnic had 1847 students in 1999.

The Government's expenditure on education in 1998-2000 period was around 10.7% of total expenditure, haven slightly fallen from 14.8% in the beginning of the decade[228].

Despite the fact that contemporary levels of population growth are not a problem in Seychelles[229], there are a number of concerns in relation to the determinants and impacts of the population on the prospects for poverty reduction and sustainable development.

In fact, population is very unevenly distributed amongst the islands, with most of the population living in urban areas. Such high rates of urbanisation strain the state's capacity in areas such as housing, infrastructure, potable water, sanitation services or solid waste disposal. A serious problem is related to the conflicts arising from land use and development, mainly due to the fact that 57% of the land is unsuitable for human settlement [GoS (2004: 7)].

Unemployment presents currently a relatively low rate[230], but the public and parastatal sectors continue to employ a large percentage of the total labour force, 33.6% and 14.3% respectively[231].

As the government undertakes the public sector reform, introduced under the new macroeconomic programme[232], many challenges lie ahead. These include the creation of an enabling environment for private sector growth so as to accommodate employees

[227] This index measures the relative realisation of a country in terms of adult literacy and in terms of the gross enrolment ratio in all three levels of education. For more information on this index, turn to UNDP (2003).
[228] Data for the Education Expenditure as a percentage of Total Expenditure is from the UNDP (2003), Table 9. According to the WORLD BANK (2004a), the Public Expenditure on Education (%GDP) was around 7.6% in 1999.
[229] In recent years, more specifically in the period 1990-2002, it has averaged 1.1% per year. Data from the WORLD BANK (2004).
[230] 3.9% in 2002. Data from GoS (2004), pp. 10.
[231] Data from the GoS (2004), pp. 10.
[232] See Section 1.3.2., Chapter III, Point 2.

from a shrinking public sector, while, simultaneously, ensuring private sector expansion at a rate faster than the rate of youth entering the labour market[233]. Furthermore, it is essential to ensure that qualifications match job specifications and that employment rates depend less on the global economic fluctuations, due to Seychelles' external vulnerability.

2.1.6. Trade, Finance and Debt

Seychelles traditionally sustains a substantial visible trade deficit[234] and a current account deficit[235], as the standards of living increase and people's expectations rise. As there is a limit to what the country can produce, most of what is domestically consumed has to be imported[236]. However, this deficit is partly offset by earnings from tourism and by capital inflows in the form of aid and private investment.

Government spending increased dramatically following independence in 1976, as the new administration expanded its provision of social services. In the past years, the budget deficit[237] has become excessive and it has been directly responsible for the acute and structural lack of foreign exchange, that is, in turn, constraining growth and development. In fact, such deficits have traditionally been financed by domestic borrowing[238] and have resulted in the crowding-out effect, both in investment and in access to financing.

Furthermore, this increment in the budget deficit implies that, even with a relatively low level of external public debt[239], foreign debt cannot be adequately serviced and arrears continue to mount, leading to indebtedness problems. In fact, total cost of debt

[233] Taking in consideration the present composition of the population, the total labour force is 53.7% of the population, 17% of which are 15-27 years old. Data from the GoS (2004), pp. 10.

[234] The External Balance on Goods and Services (as a percentage of GDP), was –2.7% in 2002 and the annual average in the 75-84, 85-94 and 95-02 periods were –8.3%, 0.8% and –10.6%, respectively [WORLD BANK (2004)].

[235] In 2002, the Current Account Deficit represented 16.3% of GDP The annual average was –7.6%, -1.0% and –0.5% in the 75-84, 85-94 and 95-02 period, respectively [WORLD BANK (2004)].

[236] In fact, trade is very significant for Seychelles, as with any other SIDS, presenting, in 2002, 159% of GDP, already representing 147% in 1980 [WORLD BANK (2004c).

[237] The budget deficit for 2002 represented around 20% of GDP and the annual average for the 85-94 and 95-02 periods was –5.1% and –14.3%, respectively [WORLD BANK (2004)].

[238] Domestic borrowing rose from 70% of GDP in 1995 to 113% of GDP in 1999. Data from the EUROPEAN COMMISSION (2002). Furthermore, the foreign financing of the deficit is very low, representing just 0.004% of GDP in 1997 [WORLD BANK (2004a)].

[239] Representing 36.16% of GDP and 46% of exports of goods and services at the end of 2002 [WORLD BANK (2004a)].

servicing was equivalent to 2.64% of the value of exports of goods and services in 2002 [WORLD BANK (2004c)] and the PPG debt service represented, in the same year, 2.36% of the value of exports of goods and services, implying that most of the Seychellois debt is public[240].

2.2. Development Strategies in Seychelles

2.2.1. Socialist Development Strategy (1976 – 1991)

The 1976 – 1979 was a troublesome period for Seychelles. Upon independence, in 1976, there were two main political parties, the Seychelles Democratic Party (SDP) and the Seychelles People's United Party (SPUP) that had formed a coalition government. While the first intended to develop the country as a financial and trading centre and placed great emphasis on the tourism industry, the latter considered the development of agriculture and fishing to be crucial and highlighted the importance of an equitable distribution of wealth.

However, in 1977 the coalition came to an end when supporters of the SPUP staged an armed coup. By 1979, and with the approval of the new constitution, the SPUP, now Seychelles People's Progressive Front (SPPF), was declared the sole legal party and introduced a socialist governmental programme [EUROPA PUBLICATIONS (2004: 956)], with a paternalist orientation [EUROPEAN COMMISSION (2003a)], characterised by a high degree of state control over the economy and life in general[241].

An ambitious development strategy aimed at the promotion of "equitable growth" [GoS (2004: 1)] was introduced and, until the early 1990s, the country managed its development by means of a dynamic vision of economic growth. In fact, and according to the UNDP (2002: §1) and GoS (2004: 1), since independence, Seychelles has managed its economy in a pragmatic way with its development strategies evolving in the light of emerging problems and opportunities.

[240] This situation can be clearly seen when comparing the country's Budget Deficit with the Government's Primary Deficit. In 2002, the first was around 20% whereas the latter was almost half standing at 10.8% of GDP [WORLD BANK (2004)].

[241] For instance, in the 80s Seychelles presented a poor record of human rights, [EUROPEAN COMMISSION (2003a)] and the press was under great pressure. Furthermore, parties other than the SPPF were forbidden and, consequently, there were many political exiles.

As a result, significant changes and transformations have been managed during the last decades. In fact, before independence, Seychelles was a small island economy operating at, or near, subsistence level [GoS (2004: 1)]. In 1976, its GDP per capita PPP was one of USD 2,621 whereas in 2002, the value had gone up to USD 11,188[242] [WORLD BANK (2004a)].

Abundant foreign aid during the cold war era allowed for important investments in social infrastructure that, together with active state participation in the economic activity, led to a generous welfare system [UNDP (2002: §1)], capable of inducing remarkable progress.

This extensive government involvement in the economy translated into large investment efforts in education, health, housing and other social services were translated into the country's socio-economic indicators and social development[243]. In fact, Seychelles now presents the highest HDI in Africa and is among the countries with high HDI, currently in the 36th position [UNDP (2003)].

Progressively, those large amounts of foreign aid also led to a more diversified economy, from a quasi mono-crop agricultural economy (cinnamon and copra) to a dual economy that, notwithstanding, is still heavily dependent on tourism and fishing and highly vulnerable to external factors. Furthermore, policies aimed at supporting export growth, import substitution, employment generation and greater self-reliance were also introduced.

2.2.2. Development Strategy followed from the 1990s Onwards

Until the 1993 elections, the country lived in a single party government that went trough armed and attempted coups as well as a series of other related political problems.

In 1991, the president came under increasing pressure from France and United Kingdom, its main aid donors, to return to a democratic political system. Consequently, the ruling party conceded its political monopoly and agreed to political

[242] The country's GDP per capita at current prices was USD 2,302 in 1980 and USD 8,320 in 2002. Data from the WORLD BANK (2004a).

[243] However, and as explained in sections 2.16., 2.3.1 and 2.3.2., this involved resulted into serious economic and financial difficulties, namely large budget deficits and a growing external debt.

elections that took place in 1993. Although the former ruling party won these elections, the government began to promote a gradual transition from socialism to free market policies.

Since then, strenuous efforts are being made to broaden the economic base and to make the necessary adjustments to change from a socialist and state-controlled economy to a liberalised free market one. These efforts included a privatisation programme, schemes aiming at increasing domestic and foreign investments in the country or projects designed to maximise the country's potential as an offshore financial and business centre, the economy's third pillar.

Until 1991, government control of key economic sectors was exercised by the Seychelles National Investment Corporation, rather than by open nationalisation. However, as from 1991, the Government has transferred most of its interests to private sector investors, with the exception of transport and public utilities.

Foreign investment is now encouraged, preferably in terms of joint-ventures, both public and private, particularly in sectors of tourism, farming, fisheries and small-scale manufacturing, namely through the implementation of the Investment Promotion Act (IPA), with the Government offering a range of incentives to stimulate increased private-sector investment.

Notwithstanding this decrease in government intervention, the Seychelles Marketing Board (SMB) maintains a monopoly on importing and exporting a wide range of products[244], a situation that restricts small business development in terms of certain products that could be locally manufactured. Although the government argues that the Board guarantees a supply of essential commodities at a stable price, there are claims that the system leads to shortages in basic foodstuffs and that prices are inflated.

Despite the Government's arguments, the SMB will need to be privatised in the future in order to comply with the WTO rules upon joining leading to a more liberalised economy in terms of foodstuffs.

In 1995, the Economic Development Act (EDA), was introduced to assist in establishing Seychelles as a centre for international offshore financial services. This scheme ascribed "*immunity from all prosecution for all criminal proceedings*" except

[244] These include fruit, vegetables, meat, tea, coffee and animal feeds.

those involving "*acts of violence and drug trafficking in the Seychelles*" to anyone investing a minimum of 10 million USD, implying, in practice, immunity in terms of extraction or seizure of assets to high profile investors.

However, this system attracted intense criticism, on the grounds that it could provide a shelter for illegally obtained funds and was described by the Financial Action Task Force, the investigative branch of the "Group of Seven", as a "*serious threat to world financial systems*"[245]. Consequently, the EDA was never fully implemented and was repealed in 2000, although the Assembly had previously approved it.

Meanwhile, in 1996, another controversial scheme aiming at attracting investment was launched in Seychelles. According to the Economic Citizenship Programme (ECP) foreigners were able to obtain Seychelles passports in return for individual payments of USD 25.000. The scheme, which aimed at the attraction of foreign investors to the Republic, benefited, in total, 243 people. However, in 1998, the Ministry of Foreign Affairs stated that the ECP "*was finished*"[246], but that consideration was being given to a new citizenship scheme to be linked to investment in the Seychelles economy.

The above-mentioned schemes were aimed at tackling the severe constraint that Seychelles faces in terms of shortage of foreign exchange and, as mentioned in the EUROPEAN COMMISSION (1998: 51), the government can be said to be willing to resort to disreputable measures to tackle this problem.

Measures to promote the development of an international business centre for financial services, trading and transhipment began in 1995 with the constitution of the Seychelles Business Authority (SBA) as a regulatory authority.

The Government adopted, in 1996, as part of the import substitution policy, various strategies to help local industries in an attempt to reduce imports and to create local employment. To foster the appropriate environment for entrepreneurship, the government set up training schemes to facilitate the private sector, and introduced new mechanisms aiming at making access to funds easier and, consequently, solving one of the big constraints facing local entrepreneurs.

[245] Quoted in EUROPA PUBLICATIONS (2004: 957).
[246] Quoted in EUROPA PUBLICATIONS (2004: 957).

As mentioned throughout this dissertation, the key to every successful business is the environment in which the private sector operates. In the case of Seychelles, and according to Mr. Basil Soundy[247], although the government has "*genuinely tried to create a conducive and friendly business environment*", there are still some obstacles to overcome in the transition to a free and open market system.

These include the perpetual foreign exchange shortage, excess government expenditure, extensive state borrowing from domestic financial institutions, high domestic interest rates and the monopoly still exerted by certain state corporations such as the SMB[248].

The Seychelles International Trade Zone (SITZ) was introduced in 1999. A major constraint of the expansion of the manufacturing activity in the SITZ is posed by shortages of skilled and unskilled labour and by lack of available land for construction, which lead the Government, in 2001-02, to create an additional 350 ha. in a major reclamation project.

Despite many advances, the economic liberalisation was accompanied by diminishing levels of Official Development Assistance (ODA) flows to Seychelles[249], resulting in pressures on the budget deficit. Consequently, this serious financial burden on the Government's budget has led to a slowdown in the real economic results and to the reduction of some state funded welfare services[250].

Furthermore, the Government remains heavily involved in the economy and social sectors, through parastatals and broad services such as education, health care, water or electricity.

2.3. Socio – Economic Challenges

As mentioned in Part I of this dissertation, SIDS present many constraints and vulnerabilities that severely limit their sustainable development. As a SIDS, Seychelles presents many of the already explained characteristics. These include a very small

[247] The President of the local Chamber of Commerce (SCCI) and chair of the Employer's Federation, quoted in [EUROPEAN COMMISSION (1998: 61)].
[248] Fur further comments, see Section 2.3.1.
[249] According to the UNDP (2002: §1), ODA flows have fallen since the liberalisation by over 75%, whereas the GoS (2004: 6) states that Seychelles has experienced a 50% decrease in ODA inflows.

population and land mass, a non-diversified natural resource base, high per capita costs, ecological fragility and a heavy dependence on international trade or food security problems[251]. Seychelles also suffers from physical isolation, a situation that acts as a hidden tariff on all trade [GoS (2004: 4)].

Furthermore, Seychelles is not based on a key geographical trading zone, being physically excluded from any integration in a dynamic regional trading bloc[252]. For instance, and as mentioned by the GoS (2004: 4), the main islands are over 1500 kilometres away from the continental COMESA partners. Consequently, although membership in this particular community has a number of important benefits, these are not sufficient to support the premium price of the country's tourism and processed tuna exports.

Additionally, Seychelles was, until recently, involved in SADC, that is considered to be an example of regional integration in a continent where most attempts have had little practical results. However, and despite, having joined the SADC in 1997 in an attempt to benefit from regionalism, Seychelles formally withdrew from the Community in July 2004[253].

As the result of the above-mentioned characteristics, Seychelles presents a narrow structure of its domestic economy, with reduced domestic competition and a limited range of exports of goods and services, namely fisheries and tourism. Consequently, Seychelles is highly dependent on international trade to satisfy its domestic demand, with negative impacts on the country's trade balance. Additionally, as the country's costs of production are internationally non-competitive and the economy has a diminutive capacity to produce based on quantities, Seychelles has a reduced capacity to penetrate the international markets.

[250] For instance, unemployment benefits previously granted to all those formally without a job are now limited to certain social categories such as single mothers or the handicapped.

[251] With Seychelles roughly importing 90% of what it consumes [GoS (2004: 4)].

[252] This exclusion has negative impacts on the establishment of the EU Economic Partnerships Agreements (EPAs), not completely appropriate to the particularities of the Seychelles Trajectory [GoS (2004: 4)].

[253] In fact, Government official, Mr. Butler-Payette considered that the country's best interest was not being served by being a member of SADC and added that a cost analysis was carried out "to find out what it is that Seychelles or its people derive from being a member of SADC and failed to see the benefits" [AFROL NEWS (2004)]. This withdrawal was one of the end results of the Macroeconomic Reform Plan (MERP), introduced at the end of 2003, in an attempt to deal with the economic crisis that was being faced by the country.

An additional problem that affects SIDS in general, and Seychelles in particular, is the limited access to capital from both international commercial markets and multilateral financial institutions. More specifically, Seychelles is excluded from a number of multilateral loan products given the GDP per capita threshold.

2.3.1. Constraints to Growth and Development

After more than a decade of rapid economic growth, averaging 5% a year since independence, Seychelles is now experiencing serious economic and financial difficulties. This deterioration of the country's economic performance since 1999 has lead to the decline of real GDP during the 1999-2002 period, and to a fall in per capita incomes[254] [WORLD BANK (2004b)].

Growth has been falling back in the last decade[255], and the most recent data available showed very low growth rates[256]. Inflation rose to as high as 6.35%[257], and the trade deficit reached high amounts[258], while the budget deficit also presented some worrying trends[259].

The two main negative factors of the Seychellois economy are, undoubtedly, the budget deficit and the external debt.

In order to finance its high level of absorption, namely in terms of large infrastructure and social projects, the government borrowed domestically, on a short-term basis, a situation that led to a boost in money supply growth. In an economic environment characterised by extensive administrative controls on prices and non-market clearing exchange rates (above equilibrium), this excess liquidity led to a high demand for

[254] Declining tourist arrivals and tourist earnings, the heightened shortage of foreign exchange and the global weather phenomena were the main factors accounting for the slowdown in overall output. This deterioration in GDP per capita in 1999-2002 occurred in spite of the Government having implemented some economic reforms in 1996, and despite the strong growth in manufacturing output, due to the expansion of the Indian Ocean Tuna (IOT) Company and the continuing expansion of the construction sector, owing largely to publics sector housing and infrastructure projects.

[255] Average annual growth rates in the 1985-1994 period were 5.7%, whereas in the 1995-2002 period the annual growth rates decreased to 4.4%. Data from the WORLD BANK (2004).

[256] In fact, the country's growth rates have been very variable, having fallen from a 12.0% in 1997 and a 8.4% in 1998, to lower values ranging from 4.8% in 2000 to –2.2% in 2001. The latest data available for 2004 showed a slight increase in growth rates to 0.3%. Data from the WORLD BANK (2004).

[257] Inflation rates where high mainly in the 1999-2001 period, being the highest rate for 1999 [WORLD BANK (2004c)]. However, despite the negative effects of such high inflation rates, Seychelles managed to bring down the rates and, in 2002, inflation was only 0.18%.

[258] The annual average for the Trade Deficit, in the 95-02 period, was one of 10.6%. However, values for the trade balance were as varied as 2.7% in 2002 or 18.2% in 2001.

imports with negative consequences on the existence of already scarce foreign exchange.

Consequently, there have been many foreign exchange scarcity problems. Access to scarce foreign exchange is tightly controlled, affecting industries and individuals alike and leading to problems such as difficulties in obtaining timely supplies of inputs, equipment and spare parts. In an attempt to address the acute shortage of foreign exchange, the government tightened trade and exchange restrictions, which, however, proved to be ineffective in stemming the crisis [IMF (2000)].

The large fiscal and external imbalances have led to a growing burden in the external debt for the government and to problems in debt management, as Seychelles' external reserves were low and insufficient to meet its commitments. Consequently, there has been an increased accumulation of external arrears and economic management became a source of concern to investors. In fact, Seychelles defaulted on repayments of UK and French bilateral loans [EUROPEAN COMMISSION (1998)].

Consequently, and in response to the poor debt service record, bilateral loans are now very limited, and it has become increasingly difficult to the government to contract external commercial loans with satisfactory spreads.

The rupee is considered to be significantly overvalued [EUROPEAN COMMISSION (2002: 8)] and the exchange rate tightly controlled and not allowed to fluctuate in response to the market conditions, making local producers non-competitive. The devaluation is, therefore, considered to be a necessary condition for the resolution of Seychelles' economic difficulties [EUROPEAN COMMISSION (1998: 51)] given that it would make inward investment more attractive and would raise the price of imports and thus help cut back domestic demand for imported goods paid for in foreign currency.

This situation of scarcity, combined with the tight control measures imposed by the government to try to overcome this problem and with an overvalued exchange rate, has led to the creation of a substantial parallel foreign exchange market.

However, the government has refused to devalue, for fear of its impacts on the standards of living and taking in consideration the volume of loan repayments to be

[259] For more information, turn bank to Section 2.1.6. in this Chapter.

met in foreign currency [EUROPEAN COMMISSION (2002: 8)]. In fact, Parliamentary Acts, passed in 2001, increased government's control over access to rates of foreign exchange [EUROPEAN COMMISSION (2003a: 1)].

Other questions for concern are the monopolistic reflex of certain state corporations such as the SMB. The government believes that it is important to maintain certain public utilities under state control so as to ensure proper investment and to meet the requirements of the population given the fact that private companies do not have the capital base needed to invest in such large-scale activities.

2.3.2. Sustaining Social and Economic Development

Much of the social gains achieved since independence have been made possible through short-term borrowing and Central Bank Funding. As a result, and as already mentioned in the previous section, Seychelles suffers from unsustainable macroeconomic problems being the final result an overall decline in real GDP growth.

Consequently, the years of generous social provision and over-ambitious government investment in major capital projects are now taking their toll on the economy, putting the social and economic achievements at risk [EUROPEAN COMMISSION (2002: 8)].

As the socio-economic achievements of Seychelles are under threat, it is imperative to address the shortcomings of the economy so as to sustain present gains in social development. The Seychelles' economy must increase its inflow of foreign exchange, a situation that requires the revitalisation of the domestic economy as to become more internationally competitive.

Equally important is the full integration of the environmental, social and economic dimensions into a long-term perspective in a country with limited natural resources and environmental vulnerability[260]. In fact, future economic growth will come mainly from the further expansion of tourism and fishing, both of which are inextricably linked to the quality of the natural and physical environment [UNDP (2002)].

[260] The country's major environmental issues include the increasing urbanisation of the main islands, threats from invasive species, natural resource pressures, low storage and retention capacity of fresh water resources, waste water problems, climate change, sea-level rise and environmental impacts of tourism.

Another important question to be kept in mind when analysing Seychelles' sustainable development is the contradiction between trade liberalisation and sustainable development. As already mentioned in Part I for most developing countries, especially for SIDS, trade is a vital source of development financing and, consequently, access to overseas markets is imperative.

In the case of Seychelles, this preferential access was instrumental in the development of the tuna processing industry, turning the sustainable exploitation of the regional tuna resource into a central element to the socio-economic development of Seychelles.

The ACP-EU Lomé Conventions were instrumental in attracting foreign investment. However, the ACP-EU Cotonou Agreement substantially reformed this arrangement and moved towards WTO conformity. Consequently, trade preferences granted to Seychelles and most other non-LDC SIDS will be cut.

Therefore, and irrespective of the benefits accrued by the tuna industry, with the complete loss of preferential market access to the EU, by 2008, it will be very difficult for the Seychellois tuna industry to be able to compete internationally, mainly due to the lack of economies of scale in labour and utility and freight costs [GoS (2004: 5)].

Additionally, one should keep in mind that countries such as Philippines or Thailand, two of the world's biggest exporters of canned tuna, are already more competitive than Seychelles, despite the present 24% entry tariff for non-ACP countries applied to their products [GoS (2004: 5)]. Hence, it is essential that Seychelles, as a SIDS, undertakes reforms to become internationally competitive, while simultaneously achieving a minimum threshold of diversification within its economy.

The only viable option is, therefore, to specialise in the production of goods and services in which it has an international comparative advantage, namely those that are export-oriented [GoS (2004: 3)]. However, this approach is, once again, dependent on the maintenance of the trade preferences and its suppression will result in turning the Seychellois economy into a non-competitive one when compared to larger developing countries.

3. Cape Verde

Cape Verde is an island state located in Western Africa, in the North Atlantic Ocean, West of Senegal. The country consists of ten islands of volcanic origin, one of which uninhabited, and thirteen islets, totalling 4,033 square kilometres of area and a coastline of 965 kilometres. Its population was around 412 thousand people in 2003, divided into two main groups. The Creole population represented 71%, whereas the African population added up to 28%. In that same year, only around 1% of the population was European[261].

3.1. Economic Overview

Despite the country's environmental disadvantages[262], the economy has reasonably and gradually grown since independence in 1975. In fact, the country's GDP per capita has increased from USD 593 to an estimated USD 1,600[263].

The country benefited from considerable provision of ODA, on very favourable terms, from substantial remittances[264] and, more recently, from the economic reform programme implemented in the 90s based on the liberalisation of the market and on the development of the private sector [EUROPA PUBLICATIONS (2004: 189)].

The economy is service-oriented, with commerce, transport and tourism and public services accounting for 72% of GDP[265]. The country presented a GDP per capita in 2002 of USD 1,405 in nominal terms and a GDP per capita PPP of USD 5,000 [WORLD BANK (2004a)], presenting the best values in terms of the other four former lusophone African colonies. In fact, Cape Verde is the only lusophone African nation within the World Bank's lower middle-income bracket.

[261] Data from the CIA (2003).
[262] For instance, the country has a poor natural resource base, suffers from a chronic shortage in rainfall and is located in the Sahel semi-arid belt, enduring intense periods of drought. An additional constraint is the fact that only 10% of its total land area is arable.
[263] Data refers to the real GDP per capita. See Table 22. In terms of the nominal values, these increased from approximately USD 200 to an estimated USD 1,400 [WORLD BANK (2004a)].
[264] According to EUROPA PUBLICATIONS (2004: 189), remittances totalled the equivalent to 10.9% of GDP, in 2002.
[265] CIA (2003), data for 2002.

3.1.1. Agriculture and Fisheries

Cape Verde is located in the Sahelian climatic zone and, thus, suffers from severe period droughts that are increasingly more frequent and more prolonged. Its combination with its volcanic topography, that reduces arable land to barely 10% of the total area, half of which is in the main island (Santiago), results in devastating economic effects.

Consequently, in the absence of the necessary infrastructure to combat the effects of droughts and given some occasional natural catastrophes such as locust plagues, the country has been unable to achieve self-sufficiency in its food production and is heavily dependent on international food aid to feed its population[266]. Notwithstanding, the agricultural sector is an important source of employment, accounting for 23% of the economically active population [EUROPA PUBLICATIONS (2004: 189)], while accounting for just over 10% of GDP in 2001[267].

The main food crops cultivated include maize, beans, cassava and sweet potatoes, complemented, whenever possible, by bananas and vegetables. Cash crops, such as bananas, coffee, groundnuts or pineapples, are encouraged, but their production is insufficient, mainly due to poor inter-island communications, a shortage of government funds, the lack of suitable available land and adverse climatic conditions, which hinder the development of production.

Furthermore, more than half of the country's total irrigated land is used for sugar cane [EUROPA PUBLICATIONS (2004: 189)], most of which is used in the production of a popular alcoholic beverage, *grog*, used mostly for local consumption. Although the government is seeking to reallocate the available agricultural land to more appropriate food and cash crops, the country's only significant export crop is bananas[268], for which it has a quota in the EU.

On what concerns fisheries, it is a sector that offers great development potential given the size of the country's Exclusive Economic Zone (EEZ), which contains one of the

[266] Food aid meets about 70% of the country's basic food requirements [WORLD BANK (2001: 1)].
[267] According to the WORLD BANK (2004a), the Agriculture's sector contribution to GDP in 2002 was 10.8%
[268] Bananas represented in 1998 and 1999, representing the totality of the country's agricultural exports. However, in more recent years, namely in 2000 and 2001 the country exported insignificant amounts of this cash crop, representing 0.0 million of Cape Verdean Escudos (CVE). Furthermore, for 2001, the country's major

last significantly underused fishing grounds in the world, with a total sustainable yield estimated at about 40.000 metric tons a year [EUROPA PUBLICATIONS (2004: 190)]. However, fishing remains a small scale industry, presenting very low productivity levels, while having contributing to less than 1% of GDP in 2001[269] [EUROPA PUBLICATIONS (2004: 190) and IMF (2003: 8)]. The sector's low contribution to GDP is mainly due to inadequate training, lack of modern equipment and technology as well as to a shortage of available financing sources.

The country's main fishing exports consist of tuna and its exports are guaranteed by a fishing agreement signed with the EU[270]. Furthermore, Cape Verde is listed by the EU as one of the 25 developing countries "*with a high level of national or regional dependence on fishery product trade and where small scale fisheries contributes significantly to exports*" and is, consequently, entitled to special EU aid for the development of its fishery industry [AFROL NEWS (2003)].

However, there were many problems in the renewal of the fishery agreement due to disagreements over the amounts to be paid for the fishing licenses. Furthermore, due to a lack of hygienic conditions and other infrastructure, such as freezing capacity, the country's fish suffered an embargo, only recently removed in 2003[271].

3.1.2. Manufacturing

The country's industrial sector remains largely underdeveloped accounting for just 16.5% of GDP in 2002 [WORLD BANK (2004a)], while employing 6% of the economically active population [EUROPA PUBLICATIONS (2004: 190)].

Manufacturing primarily consists of fish canning, clothing, footwear, rum distilling and bottling plants. Mining is of little significance, representing less than 1% of GDP [EUROPA PUBLICATIONS (2004: 190)] as the country has a poor natural resource base. Its main products include pozzolana, a volcanic ash used in cement manufacture, as well as unrefined salt.

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agricultural export is under the "Other" category, with a value of 10.9 million CVE, representing 0.24% of total exports, including fuel re-exports [IMF (2003: 28)].

[269] Fisheries represent 0.9% of GDP in 2001 [IMF (2003: 8)].

[270] This agreement allows EU vessels to fish large quotas off the coast of Cape Verde, who receive, in return, an annual financial compensation. The last fishing agreement is set for the 2001-2004 period.

[271] The Fish Export Embargo had been in place since February 2000, having lead to a large financial loss for the country.

In 1993, in order to attract foreign investment and to promote the expansion of industrial exports, a free zone enterprise law was enacted. It allowed enterprises producing goods and services exclusively for export and those specialising on transhipment to benefit from exemptions on tax and customs duties for a period of ten years. However, this law has had limited results as by 1999 only eight manufacturing companies, mostly from Portugal, had been established under the new law [EUROPA PUBLICATIONS (2004: 190)].

Additionally, in 1999, further legislation, provided for the transformation of the industrial parks of the two largest cities, Praia and Mindelo, into free trade zones and allowed for the establishment of another free trade zone in the island of the international airport, that is, Sal Island.

3.1.3. Services

Services represent around 90% of exports [GCV (2003: 9)] and contributed, in 2002, to 72.8% of the country's GDP [WORLD BANK (2004a)], while absorbing 66% of the active population [EUROPEAN COMMISSION (2001: 16)]. Among the most dynamic sectors are the public services, transportation and communications and tourism, the last two representing more than 70% of total exports[272].

Tourism has been identified, by the government, as the area with the most potential for inducing economic development. In fact, Cape Verde benefits from its proximity to the European market and has a favourable climate. Following the introduction of legislation providing increased incentives and guarantees to investors in 1991, tourism was the sector that most benefited from foreign investment, a situation that is reflected in its contribution to GDP, which has increased from 2% in 1997 to 6.8% in 2001 [EUROPA PUBLICATIONS (2004: 190)].

As the country is strategically located between Africa, Europe and America, international maritime and air transport were identified as an important source of foreign exchange. Consequently, the government intends to improve air transport infrastructure on the archipelago, so as to turn Cape Verde into a regional transport hub.

[272] Data from the GCV (2003: 7).

Furthermore, the government formed, in 1997, two companies that build, charter and lease cargo vessels to operate shipping services to Europe, in a strategic partnership with a US ship manufacturer and operators, together with local investors. Additionally, investors from USA, Saudi Arabia and Pakistan also founded an international ship registration agency, establishing Cape Verde as a flag of convenience.

On what concerns telecommunications, Cape Verde has the highest density of fixed telephone lines in Africa [EUROPA PUBLICATIONS (2004: 191)]. The local communications company has also introduced a mobile telephone network and the provision for internet services.

3.1.4. Infrastructure

As with other natural resources, potable and drinking water are scarce in Cape Verde. Consequently, the main water sources used for consumption in the country are bore holes, springs and wells as well as more expensive desalinated sources in the urban areas of the main islands.

In spite of the progresses registered in the water supply during the post-independence period, the level of services and coverage are far from meeting the needs, as a significant faction of the population still does not have access to regular water supplies. Moreover, the potable water distribution systems are quite precarious and usually imply huge waiting lines, significant walking distances and, paradoxically, relatively higher prices than those used in the piped water system that serves only 24.8% of the population[273].

On what concerns the sanitation sector, it is characterised by great needs namely in terms of availability of water and infrastructures. As with the water distribution, the sanitation sector presents a precarious situation with about 61% of the country's population without access to the minimum and appropriate services and only 9% of the population with access to public sewage[274].

Additionally, only 39% of the population, mostly concentrated in the urban areas, has a bathroom with water closets and the collection of waste water and its respective

[273] Data from the 2000 Population Census mentioned in GVC (2003).
[274] Data from the GCV (2003: 14).

treatment is currently only carried out on the country's two main urban centres. Moreover, in the capital city Praia, about 60% of the population still has no direct access to drinking water nor to adequate sanitation systems [GCV (2003: 38)].

On what concerns energy, the country depends heavily on petroleum, all of which has to be imported, representing a great financial burden[275]. Despite the fact that wind and sunshine resources are unlimited in the country, their exploitation is still incipient and very expensive. Traditional energy sources, such as firewood or biomass, are very limited and cause enormous pressure on the already scarce resources and on the environment as a whole.

3.1.5. Social Indicators

Over the years, and according to the UNDP reports, the HDI has been going up. It went from 0.423 in the beginning of the 90s to 0.727 in 2003, placing Cape Verde in the 6th position in Africa and in the 103rd position worldwide. In fact, when considering the Sub-Sahara sub-group, Cape Verde is placed in 4th position after Seychelles, Mauritius and Maldives. Libya and Tunisia are the two non sub-Saharan countries that present higher HDI than Cape Verde[276].

Despite these extraordinary results, a significant proportion of the population is still very vulnerable, with 29%[277] of the households in the country considered to be poor and 14% of those being very poor. Additionally, according to the UNDP (2003), the Human Poverty Index (HPI) was 20.1% in 2001[278].

The available indicators show that poverty is not uniformly distributed throughout the country and that it is an eminently rural phenomenon, both in terms of incidence and in terms of contribution to national poverty numbers[279]. However, the increasing urbanisation is leading to a transfer of poverty from rural to urban areas, resulting in

[275] These products represent, according to GCV (2003: 37), more than 12% of the country's total imports.
[276] Data from UNDP (2003).
[277] This figure is from the preliminary results of the 2001/2002 survey on household expenditure and income. However, a WB study mentioned in the EUROPA PUBLICATIONS (2004) classifies 40% of the population as poor.
[278] The HPI measures human deprivations taking in considerations the three aspects of the Human Development Indicator namely longevity, knowledge and a decent standard of living. Due to lack of data, coverage of the HPI – 1 is limited to 95 developing countries.
[279] In fact, nearly half of the rural population of poor and 70% of the total poor population lives in the countryside [GCV (2002: 5)].

the over-burdening of social infrastructure and services' delivery capacity, as well as in the increase of reprehensible social practices and behaviours in the cities, such as crime and drugs. Furthermore, the poverty phenomenon affects, above all, single, unemployed and unqualified mothers in urban areas.

In Cape Verde, poverty is considered to have a markedly structural dimension [UNDP (1997: §5) and GCV (2002: 7)], associated to the country's environmental vulnerabilities, its climatic instability, the non-existence of an adequate pool of resources, territorial discontinuity and external dependency. Additionally, poverty and food insecurity are regarded as being closely linked, the latter viewed as one of the main dimensions of the country's poverty levels.

Other defined poverty causes include a lack of opportunities for employment, insularity, weaknesses in education[280] and health[281] as well as a limited access to productive capital. Additionally, the Interim Poverty Reduction Strategy Paper [GCV (2002: 10)] considers that resignation and fatalism of the people and their dependence on the State also constitute determinants of the so-called "*Poverty of Spirit*".

On what concerns education, a priority social sector for investment since independence, the school age population accounts for 1/3 of the total population[282], resulting in a great pressure on resources and on the need to increase both quantity and quality of the service. Pre school education is still limited, universal access to education is only true for the 6 years of primary school and higher education is still a project that lacks financial sustainability.

Moreover, illiteracy is still a common phenomenon, although it has decreased considerably in the past years, from 37% in 1990 to 25% in 2001[283], as a result of the government's financial efforts.

Cape Verde has some of the most favourable health indicators in the South Saharan Africa (SSA) [WORLD BANK (2001: 3)] and the country is relatively unaffected by endemic diseases such as malaria or meningitis. However, although vaccination

[280] Considered to be the main determinant of Cape Verdean poverty and simultaneously the main solution [GCV (2002: 8)].

[281] Health indicators have generally increased. However, the resurgence in recent years of diseases such as cholera, measles, whooping cough and poliomyelitis are cause for great concern and point out to the vulnerability of the achievements made [GCV (2002: 9)].

[282] Data from the GCV (2003: 52).

[283] The literacy rate among adults older than 15 was 74.9% in 2001 according to data from the UNDP (2003).

against diseases is universal, recent outbreaks in diseases such as polio, cast doubts on the effectiveness of the vaccination programme and on the sustainability of the good social indicators achieved so far.

The Cape Verdean population is characterised by a young population, with 68.7% of the population under 30 years of age [GCV (2003: 5)], and presents a relatively large average annual population growth rate of 2.4% during the 1990-2000 period. Additionally, there is an increasing imbalance in the geographic distribution among the nine inhabited islands, a result of the strong internal migrant flow directed to the urban centres.

This migration results in an accentuated urbanisation process with implications in terms of housing, sanitation and access to potable water and to other basic social services. For instance, according to the 2000 Population Census[284], 58% of the urban population disposes waste water in their surroundings while only 38% have access to running water.

Despite the GDP growth registered in the past years, there hasn't been a structured and sustainable decrease in the unemployment rate, which was estimated as 17.3% by the 2000 Population Census. Furthermore, around 26% of the labour force was underemployed in 2001 [EUROPA PUBLICATIONS (2004: 189) and EUROPEAN COMMISSION (2001: 15)].

In fact, the country's population is growing fast and out of proportion with its own resource base. Although this imbalance has always been present and it has forced the country's population to leave the country, resulting in expatriates outnumbering residents by two to one [UNDP (1997: §6) and EUROPA PUBLICATIONS (2004: 189], unemployment remains high.

Among the causes of unemployment in the archipelago are the structural imbalances in the employment market such as the low level of qualification of the active population, the insufficient adequacy of available labour force given the market needs in terms of professional training, a low structural capacity of transformation and a subsequent low labour productivity. Low private sector participation in the economy is also an important cause for unemployment [GCV (2003: 11 – 12)].

[284] Mentioned in the GCV (2003).

3.1.6. Trade, Finance and Debt

Cape Verde traditionally operates a substantial trade deficit[285] that mainly derives from the country's needs to import around 85%[286] of its food requirements[287], as well as manufactured goods, fuel and other essential goods.

As from the 1990s, taking in consideration the government's open market policies[288], the trade deficit was amplified. In fact, although merchandise exports increased, imports grew much faster. By 1995, the trade deficit had reached a record of 40% of GDP [WORLD BANK (2004)], the highest value in the decade, and the government was forced to introduce some import restrictions and tariffs on certain non-essential goods. Yet, this policy had limited results as, after an initial tendency for reduction in 1996 and 1997[289], the trade deficit widened once again, although with some oscillations in the 1998 – 2002 period[290].

Cape Verde also presents a large current account deficit[291] as the country's domestic production is insufficient for the country's need and rising standards of living. Consequently, trade is very significant for the country, as with any other SIDS, representing 99.5% of GDP, in 2002 [WORLD BANK (2004c)].

The country's budget deficit also presents negative values. In 2002, the budget deficit represented around 9% of GDP, excluding grants, the lowest value ever. However, since independence, the budget, although negative, has been facing a decreasing tendency. In fact, the annual average of the budget deficit in the 75-84 period was 45% of GDP, whereas the average for the 85-94 period was 22.2% and, in the last period,

[285] The External Balance on Goods and Services Deficit (as a percentage of GDP), was as high as 35.9% in 2002. Moreover, the deficit's annual average in the 75-84, 85-94 and 95-02 periods was 65.2%, 35.1% and 34.8% respectively [WORLD BANK (2004)].

[286] Data from EUROPA PUBLICATIONS (2004: 191).

[287] The country's food imports account for 33.7% of the total merchandise imports [WORLD BANK (2004c)]. See Table 31.

[288] Namely the liberalisation of previous restrictions on almost all imported materials.

[289] The Resource Balance Deficit in those years was 32.2% of GDP and 30.4% of GDP, respectively. Data from the WORLD BANK (2004).

[290] In this period, the average value for the Trade Deficit was 35.2%, with 1999 presenting the highest deficit in the mentioned period: 38.4% of GDP. Calculations from data available in the WORLD BANK (2004).

[291] The country's current account deficit, excluding net capital grants, was 10.7%, in 2002. However, the average annual deficit has been decreasing since 1975. In fact, the annual average in the 75-84 period was 42.3%, whereas the 85-94 average was much lower, at 8.1% of GDP. The 95-02 period brought a slight increase in the deficit, which represented 11.2% of GDP [WORLD BANK (2004)].

namely from 95 to 02, the average was 17.5% [WORLD BANK (2004)]. Furthermore, as expected, the government deficit, including grants, is lower[292].

Cape Verde's total external debt at the end of 2002 reached the equivalent of 147.5% of exports of goods and services and 64.3% of GDP [WORLD BANK (2004a)]. Its total debt servicing costs were around 8% in terms of the value of exports of goods and services[293], whereas the PPG debt service represented, in the same year, 10.4% of the value of exports of goods and services, implying a high burden in the public debt [WORLD BANK (2004c)].

Public domestic debt has increased but was converted into lower interest bonds, to be managed by the central bank of Portugal in an offshore trust fund from which 95% of interest earned would be used to repay the national debt and the remainder places in a special development fund. However, this operation only started in 1999, when the deterioration of public finances impelled the Government to resort to domestic financing [EUROPA PUBLICATIONS (2004: 192)].

3.2. Development Strategies in Cape Verde

The two main development strategies followed by Cape Verde described here are based on papers by REIS (2002) and ESTÊVÃO (2004). According to the first author, the development options were influenced by different historical contexts that led to the existence of two different strategies, namely the Socialist and Endogenous Growth Strategy and the Development based on the Market and on International Integration, the latter starting in 1991 after the political change in the country [REIS (2002: 54)]. ESTÊVÃO (2004) also describes the existence of two main development strategies, based on differentiated accessions to International Economic Integration (IEI). The first strategy was one based on the Traditional Model of IEI whereas the second one implies a new and more open model of IEI.

[292] In 2002, the budget deficit was only 0.9% of GDP. The annual average in the 75-84, 85-94 and 95-02 periods was 7.2%, 6.7% and 9.6%, respectively. When comparing with the budget deficit with grants, one can conclude that the weight of the grants in the budget deficit was reduced. In fact, the grants to government in the 85-94 and 95-02 periods were 15.3% and 8.4% of GDP [WORLD BANK (2004)]. See Table 32.

[293] The total debt service was 7.6% of exports of goods and services in 2002 [WORLD BANK (2004c)].

In an attempt to rename and resume the above-mentioned strategies, this dissertation will distinguish between the endogenous growth strategy, on one hand, and the Liberalisation and International Integration Strategy, on the other.
However, one should keep in mind that each main strategy has been translated into several medium term National Development Plans (4-5 years each), since the 1980's.

3.2.1. Endogenous Growth Strategy (1975 – 1990)

In the eve of its independence, in 1975, Cape Verde presented a model of international economic integration that had been present since the 19th century and that was based on services, emigration and the country's integration in the Portuguese imperial space [ESTÊVÃO (2004: 140)].
The country's propensity for services emerged with its geographical importance in the crossing of the Atlantic routes and has become, since then, an important element of international integration, mainly allowing a permanent gain in terms of foreign currency. The integration in the Portuguese imperial space started mainly in the 1960s and consisted in the exchange of qualified and unqualified work for a flow of financing transfers. After independence, this model of dependency was reproduced, according to ESTÊVÃO (2004: 142 – 143), with the replacement of the public transfers from the metropolis with ODA, which basically brought about the same economical effects.
ESTÊVÃO (2004) considers that emigration was the essential element of this model, as it became an important factor for both social and economic change, not only because of its magnitude and continuity, but mainly due to its role in establishing links between Cape Verde and the rest of the world.
Emigration was translated, among other things, into a permanent and substantial flow of transfers that had a decisive impact on the evolution of the country's society and economy. In fact, and according to ESTÊVÃO (2004), emigration and its remittances led to the monetarisation of the islands and to the expansion of the domestic trade, in its initial phase. Later on, they became an essential source of financing that helped to guarantee external payments and to assure the local currency's stability. In a third phase, the increase in emigration was reflected in an accentuated growth of external

private transfers that, that caused a greater income of foreign currency, an increase in demand for local currency and the subsequent expansion of the money supply (all of which are sources of inflation).

Consequently, Cape Verde combined, at the time of independence, the characteristics of a rent economy[294] with those of a service economy[295], receiving external flows and recycling those transfers into the country's development [ESTÊVÃO (2004: 144)].

Cape Verde's independence happened amidst the Cold War, when the bipolar forces were strong and both were trying to increase their sphere of influence. In the Cape Verdean case, as with most of the newly African countries, the development choices were based on the socialist doctrine. Consequently, the country's first growth strategy was based on redistribution, on the satisfaction of the populations' needs and on a strong and interventionist state [REIS (2002: 54)]. In fact, and as mentioned by ESTÊVÃO (2004), the first NDP[296] was very traditional in relation to the growth strategy, driven by the State and focused on the construction of the internal market and of a productive sector.

The general increase in the living conditions of the population, namely through the enhancement of employment and revenue, its redistribution and the increase in health care and education were the main social options defined. Investment was aimed at preparing the adequate infrastructure for development, namely at rural development, transports and communications, education, water and electricity as well as activities related to import substitution [FERREIRA (1998) and REIS (2002)].

In fact, the development model was based on the concept of endogenous development that implied the consolidation of the productive system and the specialisation of the country, inserted in a strategic regionalist and africanised structure, namely in the ECOWAS [REIS (2002) and ESTÊVÃO (2004)], so as to overcome the international division of labour and the excessive dependency on imports.

[294] Now known as a MIRAB economy, as mentioned by ESTÊVÃO (2004: 144).

[295] One should add that, despite many developments, this characterisation is still valid. In fact, the economy is still characterised by a fragile productive sector, a weak capacity to export and a great dependence on foreign flows. In fact, as pointed out by ESTÊVÃO (2004: 149), the country's economic model remains essentially the same as the one existent at the time of independence.

[296] The first NPD was only introduced in 1982, eight years after independence, and it lasted until 1985.

3.2.2. Liberalisation and International Integration Strategy (from 1991 onwards)

The economic and political changes introduced in 1991 led to the end of the single party regime and to the first ever democratic elections. One of the main consequences was a radical change in the way the development process was viewed and, consequently, to modifications in the development strategy. These changes were translated into an Economic Reform Programme that aimed at macroeconomic stability, the reduction of the State's role and liberalisation of the market and considered export-oriented production as the motor of economic growth and development.

In this new concept of the economy, development ceases to be seen as the product of the action of a "benevolent state" that is in search of the collective well being and is believed to be the result of individual decentralised decisions that aim at the maximisation of the individual well-being. As a result, excessive state intervention is to be avoided at all costs, as it is considered to be one of the main causes of the development failures [ESTÊVÃO (2004: 145)].

The 3rd NDP[297] was introduced in 1992, having as its main objectives the assurance of the country's macroeconomic stability and the reduction of poverty and unemployment through the stimulus of the private sector as well as the promotion of sustainable development and the curtail of the various structural restrictions that the country faced.

Additionally, there was a change in the IEI model, which is now on a dynamic insertion in the world's economic system. In fact, after the Barbados Conference, in 1997, the main options of the plan with the slogan "Dynamic Insertion in the World Economic System – An Option for Self-Sustained Economic and Social Development"[298] were introduced. The plan integrated 32 strategic sectoral programmes including the improvement of the information system for development, the privatisation and strategic management of state-owned enterprises, market development and exports promotion, territory management and urban planning, the

[297] Mentioned in FERREIRA (1998: 14).

[298] República de Cabo Verde (s/d), "As Grandes Opções do Plano 1997 – 2005: Inserção Dinâmica de Cabo Verde no Sistema Económico Mundial. Uma Opção pelo Desenvolvimento Económico e Social Auto – Sustentado". Ministério da Coordenação Económica. Praia. Mentioned in ESTÊVÃO (2004: 3 – 5)

development of the energy sector and actions related with basic sanitation and environmental conditions [GCV (2003: 16)]

This new model implied a clear orientation towards the external market, the need to develop the market, the private sector and the human resources and the capacity to take advantages of the potential opportunities present in the world economic system while building up a strong national economy through successive adjustments [ESTÊVÃO (2004: 145)].

As a result of this new strategy, privatisations were incited and backed up by the principle of private sector preponderance and the state's role as a regulator. Moreover, FDI, one of the opportunities offered by insertion in the world economic system, is actively sought for and oriented to the promotion of exports and tourism sector in order to compensate for the ODA reduction trend [REIS (2002: 56)]. In fact, and according to ESTÊVÃO (2004: 153), the country's integration in the world economic system is intended to generate alternative flows of financing indispensable for the reduction of vulnerabilities and, at the same time, to promote activities that are able to sustain the process of economic growth, what REIS (2002: 56) describes as endogenous capacity to create valued added.

However, despite the initial "*voluntarism conception*[299]" of integration, and given the fact that the market is not an efficient means to allocate resources due to the country's microdimension[300], the state's action will continue to be important, especially in those activities where the lack of interest or capacity from the private actors is visible. Additionally, and according to REIS (2002: 56), the state is also able to attract investment and should be considered as a catalyst of external synergies, as it has access to external sources and is able to provide confidence to private national partners that would otherwise not invest.

The current government priorities for the 2001 – 2005 period include macroeconomic and currency stability, economic reform aiming the modernisation of the private sector

[299] ESTÊVÃO (2004: 150).

[300] According to ESTÊVÃO (2004: 150), microdimension is, in itself, a market failure and, consequently, implies that free market action and the creation of the necessary conditions for its efficient functioning do not solve the development problems present in the country. Consequently, Cape Verde, as a SIDS, does not have the endogenous capacity to accumulate resources and these can only be obtained from the exterior, implying that market liberalisation is a necessary but not sufficient condition for development.

and a Public Administration and Education reform. Furthermore, the fight against poverty is an important element and so is the promotion of an information and technology society and the protection of the environment[301].

3.3. Socio – Economic Challenges

Cape Verde is in a characteristic position of many small island states, presenting a number of structural vulnerabilities such as a narrow resource base, geographic isolation, vulnerability to external shocks and natural disasters and it presents entrenched poverty, namely in smaller islands and in rural areas.

Consequently, as a small island nation, experiencing territory dispersion, small size of the domestic market and long periods of drought, there is an urgent need to consolidate the market and its economic structures as a means to overcome vulnerability and to create a sustainable basis for the economy and society.

3.3.1. Constraints to Growth and Development

Despite its relatively favourable economic performance, especially when taking in consideration the neighbouring countries, Cape Verde still faces great challenges in order to achieve a strong and dynamic growth and development.

For instance, despite Cape Verde's record of strong growth and moderate inflation of around 2% a year [WORLD BANK (2001: 3)], serious macroeconomic imbalances have emerged.

In fact, the country has been facing unsustainable public indebtedness[302] since 1995, as a means to finance extremely high budget deficits caused by increases in the expenditures[303], while fiscal revenues remained almost unchanged. Cape Verdean debt is, currently, one of the main hindrances of a extremely necessary public expenditure.

Simultaneously, there are problems with the balance of external trade. Cape Verde exhibits an extremely deficient commercial balance, with exports only covering 4.5%

[301] These priorities are mentioned in LOUREÇO and FOY (2004: 209 – 210).

[302] Domestic debt was 8.1% of GDP in 2000 and external debt rose from 42.6% in 1997 to 52.3% in 2000, although all of it was in concessional terms. Data from the WORLD BANK (2001).

[303] In the 1998-2000 period, expenditures rose due to increases in oil prices and the government's policy to control prices. Other causes were the 1999 drought, which led to special outlays for food security as well as the

of imports, despite the tourist revenues, the emigrant remittances and the foreign investments in export-oriented industries. Additionally, as Cape Verde must import about 80 – 90% of what it consumes [GCV (2003: 6)], there are also challenges related with imported inflation.

Another great problem is the fact that the banking sector, although ongoing a necessary process of modernisation, is currently having some difficulties to adjust to the existent demand. The sector isn't diversified, there are very few financial instruments available and there is little competition between operators. Furthermore, despite the increasing need for private sector financing, the banking sector has been privileging the allocation of financial resources in favour of the state as other sources of financing are decreasing. Consequently, the private sector initiatives have been compressed and there is evidence of a crowding-out effect.

An additional constrain is related to the current specialisation of the economy in services, a natural evolution given the country's characteristics[304], has increased even more its vulnerability to external factors [GCV (2003: 7)]. As a result, the consequences of events such as the 11th September, that caused a considerable decline in tourism and transportation revenues, were exacerbated by a lack of economic diversification and by the economy's small dimension.

Moreover, attempts to diversify the economy and to accelerate the economic activity have had little success given the increased in the international competition, the exiguity of the production base and the higher production costs existent in the archipelago. The latter are partially due to the existence of high transportation costs and irregularity in the supply of goods, constitute serious limitations and threats[305].

Another important concern for Cape Verde is the high annual average population growth rate, 2.4% in the 1991-2000 period[306]. Such rates aggravate the already fragile and difficult living conditions of a great majority of the population and place the country with serious development problems and challenges that may cause

absorption by the government's budget of the bad loan portfolio of privatised banks, mainly including credits to students studying abroad [WORLD BANK (2001: 4)].

[304] For instance, the country does not have any natural resources that could be economically exploited.

[305] For instance, and according to WORLD BANK (2001), the manufacturing growth prospects, namely light manufacturing, are limited due to high factor costs and the absence of economies of scale, although they are encouraged by the availability of relatively qualified labour and by a steadily improving investment climate.

[306] Data from the GCV (2003: 6).

deterioration of the population's living conditions and jeopardise the government's efforts since independence.

An equally important constrain is the persistence of high unemployment, which leads to many social exclusion problems and contributes to the maintenance of the poverty cycle. The informal sector, capable of contributing to minimise deriving unemployment problems, presents some worrying characteristics. Although the informal sector could be seen as a bridge to an embryonic private sector, there are some serious difficulties that include lack of adequate infrastructure and the impossibility to link this sector to real economic growth[307].

3.3.2. Sustaining Social and Economic Development

Although the socio-economic path followed by Cape Verde has been satisfactory, the economy is marked by some imbalances and fragilities that put at risk the results achieved so far. In fact, some social indicators have been showing a declining trend since the end of the 90s[308] and emigration[309] and remittances, traditionally one of the main social buffers, has been falling drastically due to restrictive policies in the host countries.

For instance, the economy, despite the considerable advances in terms of GDP growth, is still powered from the exterior, namely by official development aid[310] and by remittances. In fact, as the country has serious difficulties in accessing capital markets due to its smallness and its relatively higher than average GDP per capita, aid and remittances are acting as compensatory measures [GCV (2003: 44)].

[307] For instance, the informal sector lacks any kind of monitoring, a situation that makes it impossible to create an equitable tax and fiscal system. In fact, only a small percentage of the population pays taxes, resulting in insufficient funding.

[308] As, for instance, in the case of health indicators, where immunisation programmes appear to have failed as diseases thought to be eradicated, such as polio, are once again on the rise. For more information turn to section 3.1.5.

[309] As described by the WORLD BANK (2001: 1), emigration can be considered to be the main pressure release valve for the country's economy, simultaneously acting as a social decompression factor [GCV (2002: 10) and as a means of escape from poverty, either by means of active emigration or, for those staying in the country, by means of remittances received.

[310] According to the GCV (2003: 25), public development aid finances more than 80% of public investments and represents about 12% of GDP.

However, given that these sources of financing are currently facing a downward trend[311], further exacerbated by the possibility of graduation from the LDCs[312], it is imperative that Cape Verde develops an appropriate financing system and attracts FDI in order to overcome the slowdown in the cycle of investments. Yet, the economy isn't capable of generating alternative financing resources, resulting in a very worrying situation.

Furthermore, although the pace of current investments is reasonable, it is still far from meeting the country's needs [GCV (2003: 9)]. Registered problems include the thematic dispersion and sector intervention of projects in the light of the existent human and financial resources as well as a deficient coordination system among institutions and the slowness in the decision-making process.

Additionally, Cape Verde has yet to introduce the necessary structural changes that will allow it to reach the platform of sustainability with a strong, dynamic and self sustained growth [GCV (2003: 27)].

Another great problem to be solved is poverty, which affects 30% of the population and hinders the country's development. The good social indicators present should not shade the fact that a big proportion of the population still lives in harsh conditions [EUROPEAN COMMISSION (2001: 15)]. On the other hand, despite significant economic and social progress, poverty in Cape Verde at the beginning of the 21st century continues to be one of the greatest obstacles to development [GCV (2002: 1)].

Environmental degradation, the pressure on natural resources and the insufficient capacity of sectors such as infrastructure, education, water supply, sanitation and health are other endogenous factors, most of which associated to poverty, that affect the country and need immediate solution, given their impact on all social and economic activities.

As the country does not have a basis of natural resources base for its development, it presents a strong environmental fragility that brings about serious concerns as to the

[311] With the exception of emigrant remittances, which are facing a growing trend [GCV (2003: 44)]. However, a sustainable system of development financing will necessarily have to move away from remittances and search for more appropriate funding sources, capable of sustaining the economic and social development of the country and allowing it to enter a permanent and ongoing process of growth.

[312] Cape Verde's socio-economic performance has contributed to the inhibition of the attribution of foreign aid and is the justification presented by international organisations to withdraw the country from the LCD group. Turn to Part I for more information on the Singapore Paradox.

durability of development, particularly in regards of agriculture and tourism development, being the latter one of the main development options currently available.
Consequently, and as with any other SIDS, development is greatly dependent on the country's capacity to participate in the world economy and the increasing globalisation of the world economy should be seen as an opportunity of access to new markets, new technologies, as a means to increase productivity [GCV (2003: 6)] and to successfully complete its process of real convergence [MONTEIRO (2004a)].
However, and according to LOPES (2003), globalisation is not an option. It is a fact that limits choices and implies pragmatic and strategic options. Consequently, only those capable of transiting from comparative advantages to the exploitation of their competitive advantages are able to profit from this phenomenon.
The current process of liberalisation is translated into the loss of preferential and differentiated access to international markets, depriving SIDS in general, and Cape Verde in particular, of fundamental levers for their positive insertion into the global market. Competition will be fearlessly increased, implying that, as mentioned before, only those capable of overcoming it will survive. Furthermore, this process of liberalisation and its negative effects on Cape Verde will certainty be exacerbated by the future process of graduation from the LDCs group.
One can conclude that, although past and current strategies have aimed at the minimisation of problems such as unemployment and poverty while intending to overcome to major challenges related to economic development, the impact of the different reforms and private investment programmes hasn't yet produced the expected results [GCV (2003: 58)].
Although many of the objectives have been achieved, regardless of the enormous precariousness both in terms of financial and human resources, much more still needs to be done in order to attain a sustainable development that will bring benefits to all.

CHAPTER IV

WHAT CAN CAPE VERDE APPREHEND FROM THE MAURITIAN AND SEYCHELLOIS EXPERIENCE?

In this chapter lies the core aim of our work. Part I of this dissertation intended to introduce Cape Verde into a theoretical framework, identifying some of its key characteristics as a Small State and, namely, as a Small Insular Developing Country. We considered that the introduction of this discussion would be useful as there is a growing literature on the subject, which is becoming more pertinent as SIDS argue their case and international organisations seem more aware of their specific situation.

As stated in Section 2.3. of Chapter 2, it is not our intention to conclude on the existence or not of two distinct groups of countries, as evidence can be found to back up both points of view, but to enlighten the analysis of our case-study countries. Indeed, many of the characteristics described in the previous sections could be clearly identified, throughout the social and economical analysis of the three countries[313].

The theoretical analysis, previously carried out, sustains our choice to compare Cape Verde with Mauritius and Seychelles. This is mainly due to the recent developments concerning Small States and SIDS, described in Part I, which led us to decide that Cape Verde should be compared to other African island countries. This choice of benchmark countries was not a difficult one as, in Africa, only Seychelles and Mauritius have the status of successful development experiences while being, simultaneously, SIDS.

Furthermore, a methodology regarding country comparisons was chosen given our quest to comment on suitable development paths for Cape Verde and taking in consideration that one of the core questions in development is, undoubtedly, why do some countries or regions "take off" whereas others seem to stall back.

[313] Chapter 3 – Part II.

After having analysed the social and economical aspects of the three countries independently in previous sections, we embark on their comparison in an attempt to in an attempt to identify what can Cape Verde apprehend from the Mauritian and Seychellois experience, having in mind our foremost goal of discerning potential development pathways for Cape Verde.

We start by highlighting some shared factors among the three case-study countries in order to perceive some of the key similarities among them, in Section 1. A brief description of the successful aspects of the development strategies of our benchmark countries is made in Section 2, while in the last Section we make an accession on their potential application in Cape Verde, mentioning both its advantages and drawbacks.

1. Comparable Features and Shared Factors of the Case-study Countries

Cape Verde, Mauritius and the Seychelles, are considered to be *Small Insular Developing States*, by a growing literature. Some authors consider that these states encompass a number of specifities and characteristics that set them apart from the other developing states, namely from the *Small States*, as previously mentioned in the course of our dissertation. In other words, one could not avoid but mentioning that these three countries share a number of specific features, possibly with different degrees, that are related to their physical characteristics and to their current development status.

These specific characteristics include, for instance, a growing indebtedness, a high dependence on tourism with consequences on the external vulnerability, a steady depletion of natural resources, a reduction of donor assistance or reduced possibilities of diversifying the economy, a small population or a small domestic market, all of which were clearly identified in the previous chapter for the three countries analysed.

Our case-study countries all suffer from isolation from the main markets, face diseconomies of scale and higher transportation costs, have to manage the problems related to the indivisibilities of the infrastructure and are affected by ecological dangers, be it either droughts, cyclones or the sea level rise. They also present food insecurity problems, mostly related to a lack of arable land for food production. Additionally, these countries face decreasing aid flows, greater difficulties in attracting

FDI, given their size and, consequently, a higher than average risk and also have to deal with the challenge of globalisation.

In the sense that, *a priori*, our case-study countries share many common characteristics, as it was exactly why they were chosen, we consider that it is more important to focus our attention on specific shared factors related to social and economical aspects.

1.1. Stability and Transition into Democracy

A very important factor shared by Mauritius and Cape Verde, and to a lesser extent by Seychelles, in the *social and political stability*, deeply related to each country's *transition into democracy*. Since their independence, and unlike much of their African counterparts, these countries have faced social and political stability.

Specifically regarding Cape Verde, social unrest has been limited given the country's low degree of ethnic fragmentation, the lowest of the three considered in our analysis, and has only been growing lately with the increase and maintenance of high levels of unemployment.

On the other hand, political stability is one of the positive factors that is often mentioned to describe Cape Verde. In fact, the 1992 political transition from a single party system to democratic one was smooth and the democratic participation was completed without conflict. In terms of the economic liberalisation, it is a direct consequence of the country's trouble-free political transition, despite the difficulties related to a lack of capacity in terms of implementing the wished measures[314].

Mauritius, despite facing greater ethnic fragmentation, with three major groups, has also encompassed reduced levels of unrest since its independence, in 1968. Like Cape Verde, it is now facing increases in social exclusion with consequences on street criminality. Politically speaking, Mauritius is also commended for its capacity to put aside divergences and to carry out a discussed development programme that entails the

[314] Whether or not these measures were the most adequate, either due to political ideologies, to the wishes and necessity to change quickly and to some measures imposed by international organisations often "blind" to the country's real needs and specificities, in the urge of applying the *Washington Consensus*.

recognition of the need to develop a national consensus over different political cycles, with very positive economic results[315].

In terms of the transition to democracy, Mauritius appears to be the country that had the smoothest transition out of the three case-study countries due to the fact that an economic socialist programme was never put in force. The country presented, very early on, an import substitution strategy[316] and was the first African country to establish an export-processing zone (EPZ), which has been, since then, one of the few cases of success in this area and in the region.

Of the three case-study countries, Seychelles has faced greater amounts of social and political instability and has had the most difficult transition into democracy and into a liberalised economy. Seychelles still presents many features related to the former single rule party both in political and economical terms and, despite the fact that elections were held, the former single-party is still ruling the country[317].

Additionally, since independence, there have been many attempted coups[318], while the single party government itself was proclaimed after an armed coup in 1977. However, and despite the existence of some political turmoil, the Government managed to maintain its development strategy, which was translated into positive results, especially in terms of social achievements.

[315] In fact, and as mentioned in SUBRAMANIAN (2001), Mauritius successfully overcame its macroeconomic imbalances of the early 1980s, with the macroeconomic adjustment being implemented by three different governments of divergent ideologies.

[316] This strategy was introduced before independence, in 1963, and was maintained after independence. This shows, once again, the country's capacity to pursue a medium/long-term project regardless of political changes, a situation that has surely been translated into better economic results than other African countries with harsher transitions.

[317] Indeed, as mentioned in Section 2.2.2. – Chapter III, the Government of Seychelles remains heavily involved in the economy, in the social sectors and in the broad services such as education, health care or electricity. Additionally, there are still monopolistic reflexes of certain state corporations such as the Seychelles Marketing Board, as the Government believes that it is important to maintain certain public utilities under state control to ensure proper investment and to meet the requirements of the population.

[318] Two plots to overthrow the Government and its leader, President René, were suppressed in 1978 and a third and more serious attempt was thwarted in 1981. The Government put down an army mutiny and a further coup plot in 1982, while one year later another attempt to depose the President was quelled. On the other hand, there was a series of attacks to the exiled opponents of the government during the 1980s, putting Seychelles in a difficult position in relation to human rights. Data from the EUROPA PUBLICATIONS (2004: 956).

1.2. Development Financing Capacity

Another important point to mention in terms of similarities among the case-study countries is the structure of their Current Account Balance, which can be roughly translated into the country's *development financing capacity*.

In fact, the Current Account Balance is the "difference between exports of goods and all services plus inflows of unrequited current transfers (official and private) and imports of goods and all services plus outward flows of current transfers to the rest of the world"[319]. In other words, it could be translated into the combination of the Resource Balance[320], the Service Balance and the Unilateral Transfers, in which we can find the non-returned current transfers such as remittances or the Official Development Aid (ODA).

As we described in the previous chapter, these countries present a highly deficient Current Account Balance, mostly due to a significant deficit in terms of its Resource Balance[321], in contrast to their Service Balances that have presented surpluses in the last years[322], although, in value, less significant than those of the Resource Balance. With a few exceptions, such as Cape Verde in the 1998-2000 period or Mauritius in the early 1980s, these countries managed to export more services than to import. This is undoubtedly due to tourism and its impacts on imports and services[323], though in more recent years Mauritius and Seychelles have turned to offshore activities, including banking and insurance.

[319] Definition from the WORLD BANK (2004).

[320] It is the difference between exports f.o.b. and imports c.i.f. of goods and nonfactor services, also know as the trade balance or as the external balance on goods and services. Definition from the WORLD BANK (2004: 39).

[321] With the exception of Mauritius that, presented a negative Current Account Balance until 2000, but in 2001 and 2002 presented a positive current account balance, excluding net capital grants, representing 2.8% and 5.2%, respectively. Data from the WORLD BANK (2004). See Table 28.

[322] For a clearer insight of these values please turn to Table 26 and Table 28, relatively to the items Exports of Services and Imports of Services (non factor and factor), more specifically the item *Export – Imports (Services, million $ current prices)*. Note that the available data refers to current prices, implying that conclusions must keep in mind the price evolution over the observed period.

[323] In fact, and according to the values presented in Table 26, as regards the item *Travel Services (% of commercial services exports)*, all three countries presented high values, in 2002, with Seychelles and Mauritius rounding 55%, whereas Cape Verde, that presents an exceptional increase in its weight since 1980, presented a value of about 46%, in the same year. These values clearly demonstrate the importance of tourism in relation to the country's exports.

However, although the Service Balance presented positive values, these were not sufficient to offset the Resource Balance[324], implying a negative Current Account Balance. However, all countries were able to profit from official transfers[325], while Mauritius and Cape Verde were also able to profit prom private transfers[326], namely emigrant's remittances, in the latter's case. Seychelles, on the other hand, suffered from an outflow of private transfers presumably related to the repatriation of profits and to the outflow of remittances from its immigrants.

Additionally, foreign direct investment and loans were equally an important source of financing. In fact, given the growing tendency for the reduction of Official Development Aid[327], foreign direct investments and loans have become an alternative for the lack of financing. Loans have been the chosen option, perhaps because of its easiness to obtain, when compared with the necessary structural adjustments to attract FDI, having resulted in a sharp increase of the country's debt and of the service payments, whose consequences have already been mentioned in the previous chapter.

Consequently, and as referred in Section 2.2., Chapter 2, most authors[328] conclude that one of the main challenges of SIDS is the development of an enabling environment for foreign direct investment as the only viable option for these country's financing needs, implying stable macroeconomic conditions or strong institutions. Additionally, it is equally important to forge new opportunities in terms of trade, investment and private sector development, while keeping in mind the opportunities accrued from globalisation.

The foreign direct investment trend has been a growing one, a situation that is clearly identified when looking at the values of the net foreign direct investment (Table 29). Though there are some fluctuations, an increase was experienced, on average, in the

[324] One must keep in mind the above-mentioned exception of Mauritius for the 2001-2002 period, as regards to its Current Account Balance. See note 321 for more information.

[325] These include, according to the WORLD BANK (2004), transfers on both current and capital accounts, including government grants of real resources and financial items such as subsidies to current budgets or grants of technical assistance.

[326] According to the WORLD BANK (2004), these include private sources to either private or public recipients that carry no provisions for repayments. They include, for instance, worker's remittances, transfers by migrants, gifts or inheritances.

[327] Turn to Table 35 and Table 36, in the annexes for more information on this tendency.

[328] As stated in the above-mentioned section, these conclusions are based on the recommendations of BASS and DALAI-CALYTON (1995), BINGER (2002), WITTER, BRIGUGLIO and BHUNGLAD (2002) and the COMMONWEALTH SECRETARIAT (2000).

three countries: Cape Verde and Seychelles experienced annual averages of around 30% in the 1995-2002 period and Mauritius presented higher values of around 42% in that same period (Table 30).

Despite the above-mentioned differences, one can conclude on the existence of a main similarity. In fact, they all depended on external resources to finance their current account, implying an incapacity to finance their development and industrialisation with domestic resources.

Notwithstanding, the importance of the sugar profits, in Mauritius, should be keep in mind. As referred in Section 1.2.2., Chapter 3, they were an essential source of financing of the EPZ, implying that, unlike the Seychelles or Cape Verde, the "take-off" of the industrialisation strategy was not based on neither government spending nor foreign investment (both private and public) but on private domestic investment[329].

1.3. Links to the Overseas Communities

Another important common characteristic is the *role of the remittances and of the overseas community*.

Indeed, as mentioned in the previous section, since independence, Official Development Aid and Remittances have been very important sources of financing. This is a characteristic that is significantly acknowledged in the available literature and that has led many authors to consider that SIDS face challenges related to their capacity to finance their development, given a context of growing indebtedness and of a cutback in donor assistance. The latter emerges as a result of the increase in competition among recipient countries.

Additionally, given the phenomenon know as the Singapore Paradox, already analysed in Section 3.3.1, Chapter 1, countries such as the Seychelles, the Mauritius and even Cape Verde, soon facing its exclusion from the Least Developed Countries (LDC) group, have greater difficulties to tap financial resources in concessional terms. Due to diseconomies of scale, these countries are also severely limited in their capacity to

[329] For more information on this phenomenon turn, for instance, to FINDLAY and WELLISZ (1993), SUBRAMANIAN (2001) and SUBRAMANIAN and ROY (2001).

access loans and are, as well, less favoured in terms of FDI, given the countries' lower returns to capital.

The high migration flows experienced by these countries and the country's financial needs resulted in important inflows of resources, a phenomenon more clearly identified in Cape Verde. This trend resulted in the concept of MIRAB, according to which SIDS have based their development in migration, remittances, aid and bureaucracy, or in other words in services.

The importance of remittances in Cape Verde is an occurrence clearly identified by ESTÊVÃO (2004), according to whom emigration was translated into a permanent and substantial flow of transfers that had a decisive impact on the evolution of the country's society and economy[330]. Furthermore, according to EUROPA PUBLICATIONS (2004: 189), remittances represented, in 2002, the equivalent to 10.9% of GDP.

Despite the fact that remittances were far more important in Cape Verde than in the other two countries, the links to the overseas communities are perhaps more important in the latter. In fact, whereas Cape Verde has significantly benefited from remittances from its emigrants, Mauritius and Seychelles were more capable of broadly exploiting the links existent with their overseas communities, a phenomenon more visible in Mauritius. According to SUBRAMANIAN and ROY (2001: 1), "*the Mauritian diversity and the responses to managing it, may provide the missing pieces in the story of Mauritius' success*". Similarly, the WORLD BANK (2002 and 2003a) considers that Mauritius was capable of turning its ethnic diversity into a major economic asset, given the fact that it took judicious advantage of business links throughout the world.

Following SUBRAMANIAN and ROY (2001), one of the main benefits of ethnic diversity was that it resulted in the existence of a large Diaspora community that turned out to have important linkages with the rest of the world[331]. These linkages created important externalities for Mauritius, given the importance of the inherent

[330] For more information on this topic, turn to Section 3.2.1., Chapter 3.

[331] The authors also conclude for the existence of two other main benefits of diversity. On one side it forced the need for an economic balance that in turn explains the preservation of the sugar sector. On the other side it forced the need for participatory political institutions that were crucial for maintaining stability, law and order, and for mediating potential conflicts. For more information on this topic, see SUBRAMANIAN and ROY (2001: 36-38).

business and social networks, in terms of international trade promotion and investment.

Examples of such importance are, for instance, the overseas Chinese Community that created formal and informal societies that help information flows. In terms of investment, the existence of a small Chinese population in Mauritius played an important role in attracting the first wave of foreign direct investment flows from Hong Kong, while the offshore financial sector grew due to the Indian Diaspora [SUBRAMANIAN and ROY (2001: 36-37)].

This exploitation of expertise and financial resources from overseas communities is considered by the literature[332] as an important approach for development in SIDS. Given these conclusions, Cape Verde must change its current scheme of private benefits to one capable of evolving into real and sustainable developments for the country as a whole, giving, for that purpose, equal importance to its overseas community's financing and expertise.

2. Aspects of the Development Strategies that Succeeded

In this section, a brief description of the successful aspects of the development strategies of our benchmark countries will be made, keeping in mind our ultimate goal of attempting to conclude on possible aspects that could be applied to Cape Verde. The latter will constitute the last section of this chapter.

We attempt to recompile the information considered in Chapter III, though mention is only made to the successful aspects of the development experience of Mauritius and Seychelles. In other words, whereas Chapter III is a social and economical analysis of the case-study countries, this section refers to the positive and successful aspects of their respective development strategies.

This section, thus, underlines the idea that a potential "*replication*" of the case-study countries should be based on their thriving strategies, despite the fact that it could be argued that some of the aspects of a failed policy could be positively applied to Cape Verde. However, we consider that while the duplication of successful aspects is not a

[332] See Section 2.2.2., Chapter 2.

guarantee of positive results, the duplication of negative aspects is more likely to fail, consequently leading us to decide to focus on the first option.

The section is divided into five sub-sections that represent the areas of potential replication, taking in consideration the sub-sections introduced in the previous Chapter, implying that many references will be made to the latter. We considered that this division would be the best approach, given the alternative to separate the section into two parts, one for each benchmark country, implying the potential repetition of similar positive strategies, as is, for instance, the case of tourism.

2.1. Agriculture

Until recently, agriculture was the backbone of the Mauritian economy, with sugar being its main product. However, this sector contribution to GDP has been significantly reduced since independence, from 23% in 1976 to current value of 6%[333]. However, the sector, and more specifically sugar, has had a great impact on the country's development. Mauritius was able to successfully take advantage of the sugar protocols signed under the Lomé Conventions. In fact, although all of the Africa Caribbean and Pacific Countries (ACP) were granted preferential market access to the by then European Economic Community and benefited from agricultural protocols, very few were capable of economically profiting from them. Undeniably, the sugar industry accounts, nowadays, for over half of the country's agricultural output and 25% of the export earnings[334].

Furthermore, Mauritius was also able to mimic, to the rest of the economy, the positive economic results of the sugar industry. The most obvious consequence of this spillover effect is, undoubtedly, the success of the EPZ and of the export-oriented industries, whose fomentation was very much based on the investment, by the plantation owners, of the large amounts of sugar profits available[335]. In fact, between 1971 and 1975, sugar producer prices more than tripled, with clear consequences on profits, as the quantities exported were guaranteed.

[333] For more information on the data turn to section 1.1. of the previous chapter.
[334] Data from the EUROPA PUBLICATIONS (2004: 726) and CIA (2003a).
[335] As mentioned in Section 1.2.2. of Chapter 3, it is estimated that, during the 1971-1976 period, sugar profits financed 50% of the capital formation of the EPZ sector.

Consequently, in Mauritius, unlike in other African developing countries, the dependence on agriculture did not stall the rest of the economy and, on the contrary, it was an important impulse factor, leading the country into a more industrialised phase.
Seychelles' experience on agriculture is less successful but equally important. The introduced government strategy for greater self-sufficiency in terms of food products has been quite successful. The country, which faces several food insecurity problems, mainly related to the lack of arable land, was able to increase its food production per head despite the decrease in the sector's economic weight in terms of its contribution to the GDP, having decreased from around 7% in 1980 to 2.88% in 2002[336].
Production increased in terms of horticultural products, eggs, poultry and pork, which were new products introduced according to a diversification approach. Nevertheless, production decreased in terms of the traditional crops such as coconuts, copra or cinnamon, greatly affected by increasing labour costs and decreasing international competitiveness.

2.2. Fisheries

On what concerns fisheries, Mauritius' industry is very limited though there are several ongoing regeneration projects, namely in terms of experimental fish and prawn farming, with a large export potential.
On the contrary, Seychelles presents a modern fishing industry mostly concentrated on industrial tuna fishing. Seychelles is the largest centre for tuna processing in the Indian Ocean, with the port of Victoria having become the main tuna transhipment centre in the region, while the country has the third largest tuna cannery plant in the World.
This Seychellois' industry, which has contributed to almost the totality of the value of merchandise exports and is its primary foreign exchange earner, envisages a number of indirect benefits such as technology transfer and production and management techniques.

[336] Data from the WORLD BANK (2004a), presented on Table 23.

To sum up, Seychelles was capable of taking advantage of one of its largest assets, the sea, a conclusion that is even more significant given the role of the tourism industry in the country.

2.3. Tourism

On what concerns tourism, both the Seychelles and the Mauritius are undoubtedly references in this industry.

In the case of Seychelles, tourism is one of the main economic sectors, representing around 55% of the service exports and 23% of the total exports. An extensive network of international air links was established and tourist facilities are regularly rehabilitated and improved. Additionally, there is a real focus on the industry, with a constant development of new attractions that have a positive impact of employment and on the quality of the service offered. These include, for instance, the creation of a craft village, the inauguration of a national aquarium or the requalification of historical sites.

Similar values are presented by Mauritius in terms of service and total exports, which has in tourism its third most important source of foreign exchange.

Both countries have recently introduced practices of quality rather than quantity, which have been translated into the establishment of "Green Ceilings" as well as on the encouragement of a new type of tourism, the *eco-tourism*, in an attempt to reduce the degradation impact of the industry on the environment, clearly focussing on sustainable tourism.

Indeed, both countries proved that sustainable tourism is a viable option for them given their adequate climate and idyllic scenarios and that it is possible to minimise, or attempt to minimise, the potential negative effects of such an activity.

By the same token, they consider tourism as a central economic activity due to the diversity of sectors that are directly or indirectly involved, consequently being a key enabler of the overall development strategy. Apart from the effects on the employment rate, quality tourism implies higher education levels, better infrastructure, namely sanitation, electricity and health facilities, airports and roads. The creation of other facilities in terms of leisure, such as restaurants, cinemas or shops must also be

tackled, implying that tourism also encourages the establishment of other important economic activities.

2.4. Industry and Free Trade Areas

The beginning of the industrialisation process, both in the Mauritius and in the Seychelles, was primarily based on an import substitution strategy, clearly imposed by the socialist ideologies adopted by most newly independent African countries. It was advocated, at the time, that a country should be self-sufficient and ought to base its growth and development in endogenous strengths.

However, whereas in Mauritius the development strategy quickly evolved into an export-oriented approach, in Seychelles the import substitution approach is still, to some point, embedded in the country's development path. In fact, and as previously mentioned, the Government was in 1996 still adopting measures in terms of its import substitution policy. However, more recently, a series of incentives have been introduced to aid small businesses to compete nationally and internationally, clearly focusing on an outward approach.

In Seychelles, the manufacturing sector accounts for 18% of the GDP. Traditional industries based on the import substitution approach include, for instance, brewing, plastic goods, salt, soft drinks, detergents, cigarettes, soap, furniture or paints, whereas more recent outward-oriented industries, are mainly concentrated in fish processing, cinnamon essence distilling, boat building and more tourist-oriented industries such as handicraft making.

The recently introduced incentives, namely the introduction of an Export Development and Promotion Facility, the creation of an Export Marketing Fund, the new trade tax concessions to export businesses, as well as the already mentioned Investment Promotion Act, were greatly important in the creation of a new impetus for the country's industries.

Of great importance in this sector is the tuna processing industry, while light manufacturing is becoming more and more relevant, as regards to the traditional industries. The Government is also attempting to attract projects that involve light assembly predominantly geared to the export market, given their reduced effect on the

environment and their expected significant impact on the economy. However, Seychelles is undoubtedly a tertiary economy, clearly based on services, being the only exception the magnitude of fishing industry.

The manufacturing sector in Mauritius is, to a great extent, composed by the textile-manufacturing sector, which in turn is the main element of the well-established Export-processing Zone (EPZ). Indeed, manufacturing accounts for approximately 20% of GDP, while textile and clothing represent almost 50% of its value.

However, unlike in the Seychelles, manufacturing in the Mauritius grew not so much due to a socialist ideology, given the fact that the initial import substitution strategy was more a natural response to the market specificities than an active government choice, but primarily as an approach to diversification away from the sugar sector. In fact, and as previously mentioned, the EPZ was very much the result of the investment of the large sugar profits into export-oriented sectors given the limitations imposed by the Government on external sugar plantation investment and having in consideration the natural limitations imposed by the saturation of the domestic market.

Consequently, the textile industry has become the country's main economic activity, followed by the sugar and the tourism sectors, being Mauritius one of the world's largest exporters of woollen goods. Additionally, Mauritius presents other fast growing sectors such as electronic components, based on the concept of light manufacturing.

The apparent industrial Mauritian "success" has been significantly studied given the fact that in Africa there were many attempts to introduce a free trade area or an export-processing zone and very few were successful. Mauritius was the first country in Africa to introduce an EPZ and the only to do so with national capital.

Of the important elements that led capital to be invested in Mauritius, the introduction of the Industrial Development Scheme, the tax holidays, the exemption from import duties, the free repatriation of profits, the use of ancestral links and the good institutional climate of the country are certainly major aspects to be considered[337]. Equally important were the attempts to strengthen the EPZ's international competitiveness and to attract foreign investors, namely through the establishment of

[337] Note that all of the above were identified and explained in the previous Chapter, Section 1.

the Mauritius Export Development and Investment Authority, as well as the creation of an export credit guarantee and a credit insurance scheme.

2.5. Offshore Sector

On what concerns the introduction of an Offshore Sector, both in Mauritius and in the Seychelles, it belongs to a comprehensive diversification strategy.

In Mauritius, the offshore sector was initially established in 1989, following 1988 legislation, and as a result of an outward orientation of the already existent banking and insurance sectors. However, and despite being a relatively new sector, the offshore sector's contribution to the economy has been rising quickly since then, presenting values close to 17% of GDP. Mauritius has had some positive results in terms of becoming a significant provider of offshore banking and investment services for a number of Asian countries, namely due to the already mentioned links to the overseas communities, actively seeking to attract capital to the islands.

Additionally, new legislation was introduced, in 2001, to encourage the country's development as a business and financial centre introduced as part of a long-term strategy to establish the country as an international financial centre. However, the results of such legislation is still unheard of.

In terms of the development of a non-financial offshore sector, the Government of Mauritius is putting much effort to turn the country into the Top Tourism Business Hub in the region, in direct competition with Seychelles. At this respect, the amount of high quality tourist spots, in the same region, is certainly translated into higher competition and necessarily better price quality options.

Mauritius also hopes to capitalise its workforce's bilingual skills and is keen to establish itself as a call centre, a shipping hub and as a Cyber Island, based on an IT free zone. In other words, Mauritius wishes to capitalise its infrastructure and its workforce, while attempting to diversify away from the textile manufacturing, in an effort to establish a sustainable and adequate comparative advantage. A clear option in a globalised world is to turn into electronic components and into IT.

In Seychelles, the Offshore Sector is the result of Government attempts to diversify and broaden the country's economic base. Indeed, the idea is to turn Seychelles into an

international business centre for financial services, trading and transhipment. For that purpose, the Government introduced a package of commercial legislation to attract international investment. Additionally, great effort was put into creating the Seychelles International Trading Zone in an attempt to take advantage of the movement of goods and capital between Asian, Africa and Europe, given the country's geographical location. Other efforts were carried out, focussing on the existence of good quality telecommunication infrastructure, on language skills and on a relatively stable economic and political environment, as it is the case of Mauritius.

Alongside the financial offshore sector, there are attempts, in the case of Seychelles, to turn the country into a centre for aircraft and ship registration, with consequences in terms of important foreign financing. Indeed, some of the country's characteristics turn it into a potential provider of services in a globalised world, namely the existence of a multilingual environment, with relatively stable economic conditions and advanced telecommunication infrastructure.

Yet, as it is the case of Mauritius, the direct economic impact of such efforts is still unknown and it is difficult to measure.

3. Specific Aspects that could be Potentially Applied in Cape Verde

In this section, and after a brief description of the successful aspects of the development strategies of our benchmark countries, we will identify aspects that we consider to be of relevant application to the Cape Verdean case.

Although our choices are personal, they are based on the approaches and recommendations described in Section 2. of Chapter 2, as well as on the conclusions of some literature concerning the Cape Verdean development strategies, as it is clearly the case of BURGO (2003), LOPES (2003) or INOCÊNCIO (2004).

This section, similarly to the previous one, is divided into five sub-sections, in which reference will be made to the positive and negative features of each one of the previously described procedures, in an attempt to conclude on a number of courses of action that could be potentially introduced in Cape Verde, both in the medium and long run.

3.1. Agriculture

In terms of agriculture, Cape Verde, as it is the case of many SIDS, suffers from large food insecurity problems. Indeed, like Seychelles, the country's arable land is limited. Furthermore, Cape Verde faces additional problems related to its geographical location in the Sahel semi-arid belt, resulting in severe periods of drought with drastic consequences on the population and in an inappropriate climate for food production.

In fact, according to FERREIRA (2003), although the agricultural sector is a large sector of employment, it has a limited contribution to the country's GDP due to its limited potential and to its incapacity to satisfy the population's needs. Consequently, the Mauritian experience would be very difficult to replicate due to the country's environmental limitations.

Additionally, Mauritius based its agriculture on sugar, a cash crop. However, authors such as LOURENÇO and FOY (2004) consider that it is imperative to introduce cultures that are adapted to the soil's characteristics and focused on food production, instead of maintaining sugar cane plantations, which in the Cape Verdean case, are used in the production of the local beverage *grogue*.

It must be also mentioned that if Cape Verde were to follow the Mauritian approach, it would imply the exploitation of an already limited resource for the production of an export crop, with consequences on the country's national food production. As a result, the rural population would become more vulnerable and the country's food insecurity would increase, as would the country's food imports.

This increased food insecurity as a result of a development strategy is a situation clearly identified by KAKAZU (1994), already referred to in Section 1.3., Chapter 2. The author concludes that a minimum standard of self-sufficiency is required, particularly in terms of food supply[338], and considers that an "import displacement" strategy must be defined, so as to revive the traditional style of food supplying for locals, making use of traditional production technologies and methodologies that have been losing importance, in a clear attempt to reduce the food insecurity problems of SIDS.

[338] LOURENÇO and FOY (2004) also consider that it is necessary for Cape Verde to reduce dependency on imported food.

On the other hand, Mauritius is facing problems related to high labour costs, with consequences on the average productivity of the sector, implying the need for more investment focussed on the renewal of the machinery. However, in the case of Cape Verde, existent financial limitations imply that little investment has been directed at this sector. Furthermore, it has mostly been focussed on irrigation facilities, forestation and in desertification campaigns, in an attempt to increase the soil's water retaining capacity and to reduce the country's loss of arable land.

If Cape Verde chose to adapt the Mauritian strategy, producing, for instance, bananas, there would be an additional problem to take into account. In fact, as previously mentioned, the role of the sugar in the Mauritian economy is, in part, the result of the Sugar protocols signed under the Lomé Conventions, which granted all the ACP countries preferential market access to the European Common Market and guaranteed prices and quotas. However, and as mentioned throughout our dissertation, this preferential market access to the EU is being reduced and will soon be extinguished, based on the liberalisation of its Common Agricultural Policy (CAP) and on the WTO commitments.

Consequently, the momentum for taking advantage of the preferential market access has passed by and the option for an export-oriented agricultural development would need to be based on significant competitive and comparative advantages, implying large productivity values and competitive costs. However, these are difficult to achieve due to the geographical and economical limitations experienced, namely the size variable.

As a result, the Seychellois approach is more likely to be successfully adopted by Cape Verde. Indeed, as mentioned earlier, Seychelles adopted an agricultural strategy based on greater self-sufficiency in terms of food products, which resulted in an increase of the production *per capita*. This is clearly an approach supported by LOURENÇO and FOY (2004), who consider that it is necessary to rationalise the use of soil and water in order to obtain increases in productivity[339].

[339] These authors also consider that potential crops to be exploited in Cape Verde should be coffee, bananas and ornamental flowers, all of which related with the export market.

However, some negative aspects must be mentioned as regards to the Seychellois approach. In fact, although there was an increase in the agricultural production, much of the production was absorbed by the tourist sector, with negative consequences on the general population, namely in terms of food insecurity. Additionally, its food imports, are greatly related to the tourist sector, implying that the country's food habits are altered as well as negative consequences on the trade balance.

To sum up, the agricultural sector must not be ignored, namely due to its importance in terms of food security and the population's vulnerability, as well as its impact on the safeguarding of a more equitable distribution of the population among the islands and on diminishing the rural exodus.

As a result, Cape Verde could adjust the Seychellois experience and attempt to increase the country's self-sufficiency, a situation that would imply a larger investment in terms of irrigation facilities as well as machinery. However, the results are uncertain given the country's specific conditions. On what concerns the Mauritian approach, we consider that it is no longer an option given the near end of the EU preferential market access and given the environmental restrictions and negative consequences of such an approach.

3.2. Fisheries

Fisheries is a sector of great potential for the Cape Verdean economy, as only 20% of its maritime capacity is used. However, the existent fleet is very small and precarious and, according to FERREIRA (1998), few are motorised and the majority of the boats is still using traditional and low productivity methods of fishing. In addition, the author describes the industrial fleet as being small and having obsolete boats, many of which are already inactive.

Consequently, any attempts to revitalise and industrialise the sector would imply large investments. In the present logic of economic liberalisation such investments should come from the private sector, implying entrepreneurial spirit and government incentives. The latter, should not be active public aids but rather be focussed on infrastructure building, such as adequate harbours, on training of the fishermen or on attracting foreign investment, namely by making use of financial incentives.

LOURENÇO and FOY (2004) also consider imperative that the government helps the sector in terms of freezing infrastructure and fleet modernisation[340], so as to take advantage of the country's EEZ potential.

Additionally, it is important to create commercial paths for the product and to induce the creation of fishing related industries such as a canning industry, as in the case of Seychelles. Consequently, it is important that Cape Verde is capable of conveying an image of product quality.

On what concerns the country's fishing products, and as previously mentioned, Cape Verde faced some specific problems, namely in terms of the hygiene of its products, which led to an EU embargo only recently removed. As a result, the training of the staff, the introduction of rules and regulations, the creation of a regulatory organism and the use of refrigeration facilities are vital for the survival and development of this sector.

As regards the Seychellois experience, it is very difficult for Cape Verde to achieve such an accomplishment, given the need to be truly competitive at world level. However, the main idea, which must be applied in Cape Verde, is the need to take advantage of the country's maritime potential, something that is clearly not done.

Consequently, the foremost lessons to be learned are the modernisation of the country's fleet and the need to sustain successive increases in productivity. In other words, the Cape Verdean fleet is not required to be internationally competitive but is obliged to establish a culture of productivity and competitiveness, so that, in the long run, such aspirations are legitimate.

In terms of the Mauritian experience, its main approach concerning experimental farming is also a potential solution for Cape Verde, with aquaculture being one of the prospective ways out mentioned by BURGO (2003). Indeed, although Cape Verde has a large EEZ, its continental platform is limited and the fish present are seasonal. As a consequence, the introduction of fish farming could be a potential solution for the country's limited fish catch.

[340] LOURENÇO and FOY (2004) consider that there are already some incentives in place aiming at the modernisation of the fleet and at the attraction of foreign investors in the sector. These include the non-taxation of equipped boat imports, as well as the exemption of taxes on terms of motors, spare parts and other material for fisheries, all aiming at the modernisation of the fleet.

In Cape Verde there have been some approaches to the exploitation of the maritime resources, namely in terms of offshore facilities such as ship registration[341]. Undoubtedly, these initiatives must be preserved and new ones must be encouraged. However, much still needs to be done in terms of the actual fishing industry, namely on what concerns increases in productivity, including the modernisation of the fleet, the introduction of adequate facilities and the training of the workforce.

3.3. Tourism

Tourism has been identified throughout our dissertation as one of the options of development for small states that present adequate natural endowments and a good climatic situation. In fact, this is a sector that has had a similar impact on both case-study countries. Whereas Mauritius is more focused on agriculture and manufacturing and the Seychelles on fisheries, tourism is, undoubtedly, one of the key pillars of the economy in both countries.

Consequently, the majority of the available literature[342] considers tourism as one of the best developmental options for Cape Verde. In fact, it has the capability of being a key enabler of the development strategy as it encompasses a variety of other important sectors, consequently having a great growth potential, as mentioned by LOURENÇO and FOY (2004).

Additionally, MONTEIRO (2004) considers that tourism is a sector of strategic importance to the economy given the country's geographic position and its environmental characteristics, namely in terms of climate.

However, the development of tourism comprises a series of constraints that need to be overcome so that the sector attains a real comparative advantage and Cape Verde truly benefits from the sector's development.

A first element that requires attention is the need to overcome the idea of tourism as a threat to the country's sovereignty, namely in terms of massive foreign investment [MONTEIRO (2004: 26)]. Indeed, the political class needs to consider foreign

[341] See Section 3.5., ahead, for more information.
[342] See for instance, BURGO (2003), FERREIRA (1998), EUROPA PUBLICATIONS (2004), LOURENÇO and FOY (2004) or MONTEIRO (2004).

investment as positive, encouraging it at a high scale while promoting private and public partnerships, as mentioned by LOURENÇO and FOY (2004). Undeniably, as in the case of Seychelles, a positive and proactive approach towards tourists is required[343].

Equally important is the need to become conscious of the environmental impact of tourism. KAKAZU (1994) considers that the balance between environment and development is extremely difficult to achieve. Consequently, the author believes that it is crucial to analyse the carrying capacity of the islands before any potential strategies for sustainable development are put into place. This advice is clearly followed by both case-study countries, namely with the introduction of "green ceilings" and with the estimation of the country's maximum and sustainable tourist capacity.

It is also imperative to recognise that large-scale tourism is incompatible with serious infrastructural deficiencies, namely in terms of water and basic sanitation, factors with large environmental impact. Other infrastructure deficiencies such as lack of adequate electricity facilities, roads, airports or ports, are equally important for the support of a quality tourism approach, which was adopted by both case-study countries, and should be introduced by Cape Verdean authorities.

However, one should not consider quality tourism as minimalist tourism. In other words, a minimum number of tourists is required and, as a consequence, charter flights should be encouraged in order to attract more tourists. One should note that, although the Mauritian and the Seychellois experience should be followed, the Cape Verdean tourist potential must still be fulfilled.

Indeed, while the adopted policy should be towards the quality of tourism, the quantity of tourists is still below a hypothetical maximum limit. Consequently, new hotels and additional infrastructure need to be built and approaches to attract more tourists should be introduced, mostly based on international campaigns in the targeted markets. Nevertheless, much attention should be given to both the environmental impact of

[343] According to the above-mentioned authors, the already existent incentives to attract investors include an 100% fiscal exemption in the first five years of investment and a 50% discount in taxes in the following 10-year period as well as the exemption of import taxes on all the materials used in the construction and exploitation of the hotel and tourist facilities. Additionally, there is also a reduction of taxes on profits if these are reinvested in the same sector.

such number of tourists and to the quality of the product offered, as is the case of the Mauritius and the Seychelles.

Moreover, an additional aspect to keep in mind when considering quality tourism is the qualification of the human resources, implying the need to introduce tourism schools, capable of adequately qualifying human resources for the sector, from the lowest to the higher levels. In other words, from the cleaning personnel to the hotel managers.

As already mentioned, the tourism sector encompasses a variety of important other aspects. It is imperative to introduce dynamism into the sector, allowing for positive externalities over other sectors of the economy through the promotion of multiplier effects. The respect of the environment and culture must be simultaneously assured, implying the introduction of the concept of sustainable tourism.

To sum up, attention should be paid to the tourist infrastructure, to the supply and quality of entertainment facilities, to health services and necessary means of evacuation, as well as to transport infrastructure. Other important elements to be considered are related with urban infrastructure, sanitation, water and electricity supply.

The above-mentioned elements cannot be elapsed, as they are crucial elements of the already discussed approach for a sustainable and quality tourism. At this respect, and according to LOURENÇO and FOY (2004), it is imperative that the country's air space is liberalised and that new international air link agreements are established so as to reduce unit costs of transportation, consequently implying an increase in tourist arrivals.

The introduction of charter planes was recently accomplished, with the drastic reduction of holiday packages prices to the Sal Island. However, much still needs to be done in terms of inter-island transportation and on what concerns the development of tourism in the different islands. LOURENÇO and FOY (2004) also consider that the development of domestic tourism, aimed at the local population is also crucial. At this respect, the conditions to attract emigrants in local tourism packages must be created.

Additional elements that should be considered are related to the consequences of the rapid growth of non-indigenous food imports, with consequences both on food

insecurity and on the trade balance. Furthermore, the import of inputs for the construction of tourism-related facilities might have little or no linkages with the rest of the domestic economy, with negative consequences on the balance of payments and on the accentuation of the economic dualism[344].

Accordingly, it is essential to consider tourism as an integrated activity and to include the local population in the development of the sector. A potential approach is to focus on development of local crafts and of domestic tourism, ideas put forward by LOURENÇO and FOY (2004).

To sum up, tourism should be seen as a potential engine for development since it can contribute and has contributed to the development of many island states, but it cannot and should not be regarded as a panacea[345] [COMMONWEALTH SECRETARIAT (2000)]. Additionally, following the Seychellois and the Mauritian experience, Cape Verde should focus on quality tourism capable of developing many other sectors.

Thus, considering the Strategic Global Repositioning (SGR)[346] approach, according to which production should be focused on niche markets and based on small high value aspects, the tourist sector should attempt to include aspects such as *eco-tourism*, boat trips, cruises, mountain tourism or scuba diving, all aspects with great potential and that attract different market sectors.

3.4. Manufacturing and Free Trade Areas

Manufacturing has had a limited role in the Cape Verdean economy, representing around 17% of GDP. The sector is composed of small private sector firms and is very much concentrated in the two main cities. Additionally, and as mentioned throughout our dissertation, the development of the sector is conditioned by various factors. These include, for instance, the limited dimension of the market, an evident lack of resources both in terms of raw materials and human resources, high production costs, a small industrial tradition associated to a small private entrepreneurial class, a limited qualification of labour, a manifest external dependency and irregular supplies.

[344] This is the case of Seychelles, in which a large proportion of the tourism earnings leave the country as payment for imported food and other goods and to pay the tour operators.
[345] Turn to Section 1.3., Chapter 2, for more information on the subject.
[346] See Section 2.2.5., Chapter 2.

On what concerns the Mauritian experience, it has been clearly based on the EPZ and on the manufacturing sector, more specifically on *textiles*. Only recently has there been a shift to electronic components manufacturing. In terms of the introduction of such an approach to the Cape Verdean economy, it should be mentioned that we consider, as in the case of the sugar industry, that the impetus to introduce such an approach is no longer present.

Indeed, as previously mentioned in Chapter 3, one of the challenges faced by Mauritius is related to the changes in the WTO rules and to the subsequent implementation of the Multi-Fibre Agreement. Simultaneously, a revision of the country's privileged access to the EU markets is also expected in this area, following WTO impositions.

Consequently, Mauritius will face increasing international competition in its main EZP export sectors, namely in the textile industry, from lower cost producers such as China or India. As a result, the survival of the textile industry lies on sustainable competitiveness. However, in terms of competitiveness, Mauritius has faced problems in terms of diversification and based much of its competitiveness on reduced labour costs and on currency depreciations. Additionally, the sector has maintained a low skill and low technological structure, although, more recently, with the increase of the labour costs, many firms in the EPZ are now using more capital-intensive technologies.

Textiles in Cape Verde haven't been and are unlikely to be potential competitive and comparative advantage elements. They would initially require a low cost labour, but would soon need to become technologically advanced in order to sustain the country's advantages. In other words, unlike in the Mauritius, where the textile industry was considerably based on low labour costs and on currency depreciations, in Cape Verde such options are not available.

Indeed, although the country's factor costs are relatively competitive [LOURENÇO and FOY (2004)], they are not capable of competing with the Indian or Chinese costs, which clearly benefit from economies of scale. Additionally, other factors needed for the production process, such as electricity costs, present higher prices than in other countries, turning the final product more expensive.

On what concerns the currency depreciation, it is not a viable option given the fact that the Cape Verdean Escudo is pegged to the Euro, after having been pegged to the Portuguese Escudo. Consequently, the country no longer has access to independent monetary policy instruments, which are now dependent on the European Central Bank's decisions.

An additional element to keep in mind is that labour costs are no longer sufficient conditions for success and that other elements that clearly add value to the products are necessary. As such, textiles will be a difficult choice for Cape Verde, given the need to be more competitive than countries such as China or India, and the need to do more than other countries such as Mauritius had to do to become competitive.

Mauritius is currently facing several problems related to their textile industry and has been trying to diversify the manufacturing sector before the MFA comes into effect. As a result, we believe that it would be a mistake for Cape Verde to take on this path, as its consequences will surely not be those achieved by Mauritius.

Consequently, it would be best for Cape Verde to rely on light manufacturing industries other than textiles, whose growth is not primarily led by the existence of a preferential market access.

Following the conclusions of Section 2.2.2., Chapter 2, according to which SIDS should base their development on competitive and diversified high value-added commodities and services, it would be best to base the manufacturing growth on competitive and comparative advantages, instead of relying on unsustainable elements that only have a short-term impact.

Nonetheless, the textile sector needn't be forgotten, as there are still some options for growth in terms of the African Growth and Opportunity Act (AGOA), which gives the possibility for African countries to export duty free textiles and manufactures to the USA. Indeed, many authors such as BURGO (2003) or LOURENÇO and FOY (2004) consider that the Cape Verdean industry should also focus on textile and clothing.

In terms of *light manufacturing* option, both Seychelles and the Mauritius have made clear attempts to succeed at this level, making use of import and/or export substitutions industries. The option for a type of industry or the other is clearly a matter of economic policy. Both case-study countries initiated their industrialisation process

with import substitution industries, but while the Seychelles maintained this approach until recently, the Mauritius quickly evolved into more export-oriented industries.

The Mauritian experience described by RODRIK (1999)[347], as an "heterodox opening" that implied the coexistence of import substitution and export substitution industries, appears to be the most useful approach. Indeed, whichever may the choice be, it is clear that both elements are required. While import substitution industries are easier starting options and are necessary for the reduction of the high trade deficit existent in all the three considered countries, export substitution industries are the correct option when considering a globalised world, where endogenous have show to have some practical limitations.

Undeniably, SIDS's specificities imply an outward-looking approach as the only means to overcome the limitations of a small domestic market. However, the fact that to be internationally competitive firms must have an optimal dimension, could suggest that SIDS's firms must have a monopolistic reflex. Consequently, the existent size constraints are translated into difficulties in terms of diversification, given the need to specialise in the production of certain goods, implying an increase in the country's international vulnerability.

Additionally, the necessary specialisation movement is translated into an incapacity to satisfy the domestic market, thus bringing about the perpetuation of high imports. Equally important is the lack of competition that accrues from large firms in small markets. As a result, prices will tend to be larger and the quality inferior, with negative consequences in terms of sustaining the firm's international competitive and comparative advantages.

We believe that in the Cape Verdean case, a valid option would be to first introduce import substitution industries in order to create an industrialisation and entrepreneurial capacity and the necessary infrastructure. The export-oriented industries would then be the result of such efforts. However, given the international economic situation, such approach would need to be similar to the Mauritian one in terms of time frame. Indeed, the introduction of export-oriented industries would need to be done as soon as possible, as it is imperative to become competitive at an international level.

[347] See note 195.

An additional and important element to be considered, and as already mentioned in the case of tourism, is the existence of previous infrastructure conditions in order to promote a successful industrialisation process. In this respect, water and energy infrastructure are essential for production and so are transport facilities, such as airports and shipping facilities, indispensable for the international supply of the goods produced. The existence of adequate infrastructure conditions are pre-requisites for the attraction of foreign direct investment and are as important as financial incentives such as tax holidays.

The Mauritian and Seychellois approach allow us to conclude on the potential introduction or greater development of industries such as brewing, soft drinks, animal feed, meat and dairy products, paints, furniture, soaps, detergents and cigarettes. These industries were all successfully introduced in Seychelles in a import substitution logic and, as a consequence, will be specifically approached as regards their introduction in Cape Verde.

As regards brewing and soft drinks, there are currently two examples of such approach, Coral and Coca Cola, respectively. Animal feed, meat and dairy products, are related to the agricultural sector and although they are constrained by the already mentioned factors, some processing units can be found in the country. Indeed, these industries do not depend as much on climatic conditions, and mostly only imply the existence of some water and grazing land. Additionally, these industries are positively correlated with the reduction of food insecurity problems and with the tourism industry.

There is currently a paint factory, SITA, while the furniture industry is mostly based in São Vicente, the second island in terms of economical importance, and has experienced some domestic success. A cigarette factory, a pharmaceutical industry, civil construction businesses, footwear and furniture manufacture are also examples of industries present in the country. Additionally, there is also some extractive industry, namely in terms of salt and posolana, used to make cement.

Regarding an export-oriented approach, we can find examples of some naval construction industries, although these are mainly focussed on the traditional boats and not so much on the more sophisticated ships. Consequently, the local industries are not

adapted to the world demand and the development of such an industry would imply large investments and large competitive capacities given the growing competition existent in the naval construction, with South Korea beating all existent industries, namely European.

In terms of fish processing industries there already exist some units, especially in São Vicente Island. However, as previously mentioned, these need to remodelled in an attempt to overcome the existent difficulties, namely in terms of hygiene conditions. Additionally, these need to be more export oriented, as currently their final product is mostly for domestic consumption and for the Diaspora's consumption, having a very low international position.

The handicraft industry is mostly related to the tourism sector and it is an important element to mobilise the local population. It is mostly export-oriented as the main clients are expected to be tourists.

Comparing to the Mauritian approach to the electronic components industry, no attempts have been made so far in Cape Verde. However, it is imperative that the private investors become interested in such industries, as these are clearly sources of value added and are clearly important elements in a sustainable development strategy. Consequently, the Government must take the necessary steps towards mobilising foreign direct financement to such sectors. Important elements to such industries are once again the pre-existence of adequate infrastructure and qualified human resources.

To sum up, the Cape Verdean industrialisation process, and the country's subsequent economic development, will necessarily need to be based on the construction of adequate infrastructure and on the qualification of the population, with a special emphasis on computers and languages. Equally important is the need to transform the mentality of the population towards a more participatory approach based on quality incentives and effort.

3.5. Offshore Sector

Both the Seychelles and the Mauritius have made attempts to develop financial and non-financial offshore centres as part of their diversification strategy.

The financial offshore sector, namely in terms of international financial services was considered in Section 2.2.5., Chapter 2, as one of the solutions to be included in the Strategic Global Repositioning (SGR) strategy. Indeed, these services allow countries to share risks with the rest of the world [EASTERLY and KRAAY (1999)], helping countries to ensure themselves against large external shocks.

However, the exploitation of this potential benefit by small states is being put on hold due to problems related to offshore financial centres and to financial crimes such as money laundering. These recent worries are related to the safeguard of the international banking and financial system and to the need to avert financial and tax crimes. Undeniably, the international community has become distrustful of the Offshore Financial Sector.

Consequently, the international community has fought for the creation of new regulatory agencies, which act as cost deterrents and are very difficult to overcome for any offshore sector that is in the beginning of its operations, such as the case of the Seychelles. Consequently, for newly formed offshores, as would be the case of Cape Verde, these regulatory agencies imply additional costs probably very difficult to surmount.

Additional problems related to the introduction and development of a financial offshore centre are related to the shortage of a very high skilled manpower, the existence of a high market concentration, excessive volatility and poor liquidity, as well as inadequate disclosure and surveillance. These circumstances imply the need to strengthen the legislative and institutional framework for the financial services sector, and possibly the creation of new institutions, as was the case of Mauritius[348].

The Mauritian experience has been somehow positive given the fact that the country has become a significant provider of offshore banking and investment services for a number of Asian countries, namely due to the already mentioned links to the overseas communities, actively seeking to attract capital to the islands.

However, despite the positive considerations of some authors such as BURGO (2003), the introduction and development of the financial offshore sector, including insurance,

[348] Indeed, and as mentioned in Section 1.1.4., in the previous Chapter, the Government set up the Financial Services Commission, the Financial Services Promotion Agency and the Financial Intelligence Unit.

banks or investment banks, in Cape Verde, imply that, as in the case of the textile based manufacturing sector, the momentum of the financial offshore sector has elapsed. Indeed, we support the opinion that financial openness in itself is not a panacea. Consequently, we believe that the non-financial offshore centre is a much better option for Cape Verde.

The maritime resources, apart from fisheries, can also be exploited in terms of ship registration, with the introduction of flags of convenience, an approach followed by Seychelles and backed up by BURGO (2003). This author also considers that in Cape Verde there should be a focus on a potential knowledge park in terms of maritime investigation or on shipping services, with, for instance, the arrival of large cruises. The above-mentioned author is also keen on the creation of a regional development zone for the promotion of the adequate use of the maritime resources, including, among others, an information centre for fleets, following an Icelandic experience.

These options are in line with the current approach identified in the country. As previously mentioned in Chapter 3, the Government formed, in 1997, two companies in a strategic partnership with local and foreign companies, which build, charter and lease cargo vessels to European companies. Additionally, foreign investors have founded an international registration agency.

The tourism resources can also be exploited in terms of aircraft registration. BURGO (2003) considers that the Cape Verdean development options should also include a regional hub for passengers and freight, a regional centre for air transport or even a duty free shopping area, having in consideration Dubai's model. These are all aspects that have in mind the tourism sector and that are focussed on the SGR strategy, which bases development, among other things, on information technology, electronic commerce and regional hubbing, all of which could be viably applied in Cape Verde given the country's geographical location.

At this respect, the international airport facilities are currently used as a strategic refuelling point for a number of passenger and cargo transportation airlines. However, the development of such actions would imply the modernisation and expansion of the already existent facilities, also necessary given the potential increase in the number of tourists.

As in the case of Mauritius, Cape Verde is also keen to establish itself as a *Call Centre*, and has given the first steps to achieve that goal with the establishment of the Portuguese Telecom Call Centre. However, unlike Mauritius and the Seychelles, Cape Verde does not have a population with bilingual skills at an international level and, consequently, its scope of action is limited to the Portuguese Speaking Countries[349].

Additionally, the Mauritian attempt to become a Tourism Hub and a Cyber island is probably currently too ambitious, as Cape Verde still needs to expand its tourism sector and much still needs to be done in terms of a well educated and computer literate workforce. Consequently, these could only be long-term options.

However, it is imperative that ambitious ideas are not discarded as impossible. Indeed, although the achievement of such ideas is costly and lengthy, it is necessary that the government realises that long-term structural changes need to be applied as soon as possible given the globalisation context of which Cape Verde is part of. As a result, it is crucial that Cape Verde introduces adequate educational reforms that include English and computers as mandatory subjects, implying adequate human resources, in an attempt to replicate Mauritius that placed education and training on the top of the Government's Agenda as a means to obtain a higher productivity in the sector.

Additionally, it is also vital that attempts are made to introduce packages of commercial legislation to attract international investment, essential to the development of such centres.

[349] Note that the introduction of Creole, the country's national language, as an official language with probably have a negative impact on the already limited population that currently and adequately speaks Portuguese, implying a reduction in the qualified human resources available to work at a call centre.

CONCLUSION

The main purpose of this dissertation is the identification of potential development pathways for Cape Verde, considering the possibility of apprehending some elements from the Mauritian and Seychellois development experiences.

Based on the previous chapters, we now attempt to summarise the main inferences, concluding with possible development pathways for Cape Verde. In this regard, we are fully aware that "copying" development patterns is a myth in development economics. Nonetheless, we hope to positively add to the ongoing debate concerning the Cape Verdean growth opportunities.

As we stressed at the beginning of this dissertation, we started by comparing Cape Verde to similar countries, both in terms of geographical location, as the three countries are in the Sub-Saharan Africa, as well as in terms of specificities that affect them, following the discussed SIDS approach. We attempted to conclude if Mauritius and Seychelles are a relevant case for Cape Verde, given the context of the Sub-Saharan Africa, despite the fact that some observers[350] claim that these countries might not be ideal benchmarks because their starting point conditions are very different from those identified in a "typical" African country.

We do not deny that numerous special features of Mauritius and Seychelles attach difficulty to the process of transferring their experience to other countries. However, we consider that all such transfers have to be adapted to the particular circumstances of the receiving country, an adaptation that requires a creative and innovative process instead of a mechanical one.

It is equally important to note that our chosen benchmark countries, despite their relative economic and developmental successes, are currently facing socio-economic challenges. These can be mainly summarised as problems related to the preservation of productivity and competitiveness, the reduction of growth rates, the erosion of trade

[350] Mentioned by GULHATI and NALLARI (1990).

preferences, rising unemployment, inflation, high trade and budget deficits, difficulties in terms of diversification, declining FDI and ODA as well as the need to overcome the challenges of globalisation.

Nevertheless, these problems are equally faced by Cape Verde and, consequently, we consider that they do not jeopardise any potential conclusions concerning a prospective application of certain aspects of the countries' development experiences.

Considering the available literature, particularly the work by BURGO (2003), LOPES (2003), and LOURENÇO and FOY (2004), some comparative and competitive advantage elements to be potentially exploited were identified.

These include, following the elements identified in the Seychelles and the Mauritius, the existence of social and political stability, and a young and relatively qualified human resources when compared to countries in the region, as well as acknowledged tourism potentialities. Additionally, Cape Verde has preferential access to external markets, through the Lomé and Cotonou Conventions, the Generalised Preference Agreements or the AGOA agreements, as well as regional links to the ECOWAS.

While the first elements have seen their momentum pass by, regional cooperation mechanisms will possibly be a solution to overcome the limitations of the country's domestic market.

Furthermore, the existence of an adequate legal environment for investment and business is clearly an element that enhance the country's economic attractiveness, namely due to the External Investment Law, the Free Trade Enterprise Law and the incentives to exports and to other commercial and fiscal laws. Indeed, these are all aspects that improve the support of the private sector, considered to be the engine of the economy.

Other important elements that need to be exploited, though not directly related to the Seychellois and Mauritian experience, include the fact that Cape Verde has a privileged geographical location, much closer to Europe than the other two countries, implying smaller distances and lower transportation costs.

Additionally, the Cape Verdean Governments were able to maintain a good international reputation in relation to its management capabilities, as regards international aid and in terms of honouring its financial engagements, a situation that

enhances the country's credibility and good image, as well as its attractiveness for foreign investors.

Perhaps one of the most important elements of Cape Verdean comparative advantage is related to the convertibility of the national currency in relation to the Portuguese escudo and, consequently, to the Euro. This implies the existence of credible macroeconomic indicators, as well as a political will to maintain the integrity of those indicators. This characteristic is undeniably translated into a higher currency stability, bringing about positive impacts on the economy's attractiveness, specially in terms of European Union countries. However, foreign investors are seldom aware of this element of the Cape Verdean economy. Consequently, it should be more publicised, as a means to encourage more foreign investors to invest in Cape Verde.

The solution for a sustainable growth in Cape Verde will necessarily require the transformation of the internal factors, mainly focussing on the enhancement of the country' internal productive base. The promotion of an adequate environment for private initiative, for the development of savings and accumulation of wealth and, simultaneously, for the improvement of the private investment should be considered as imperative elements of the country's developmental strategy.

Following the above-mentioned problems, the country's potential advantages and the analysis carried out in Chapter IV, we consider that the Cape Verdean options should be based on several elements.

In terms of *Agriculture*, this is a sector that cannot be ignored mainly due to its importance in terms of food security and given the proportion of the population that is engaged in agricultural activities.

The Mauritian option is no longer an option for several reasons, but mostly due to the near end of the preferential market access facilities. Other difficult aspects to overcome in terms of the Mauritian experience are related to environmental factors and to the need to base the sector's development on large competitive and comparative advantages, thus implying large productivity values difficult to achieve due to the Cape Verdean geographical and economical limitations.

We concluded that Cape Verde should attempt to increase the country's self-sufficiency, following the Seychellois experience, as it is more likely to be successfully adopted.

As regards the *Fisheries* sector, we conclude that it has great potential. In order to take advantage of such a valuable resource several investments are needed, namely in terms of the modernisation of the fleet. Additionally, efforts must be made to establish commercial paths and to create related industries. The analysis of our benchmark countries led us to conclude that, in terms of the Seychellois experience, Cape Verde should apprehend the need to establish a culture of productivity and competitiveness, whereas the introduction and development of experimental farming and aquaculture should be replicated from the Mauritian experience.

Tourism is considered throughout our dissertation as one of the best developmental options for Cape Verde given its great growth potential and the fact that it is a key enabler of the country's development strategy.

However, there is a great need to become conscious of the balance between environment and development, implying the genuine conception of sustainable development. As a result, and given the experience of our benchmark countries, it is necessary that the Government introduces green ceiling and that the country's maximum sustainable tourist capacity is calculated. The introduction of the notion of quality tourism is also a vital element of the approach.

In order for tourism to become an adequate solution for the country's developmental problems foreign investment needs to be encouraged and private and public partnerships need to be promoted. It is also imperative that infrastructural deficiencies are overcome and that the human resources are adequately qualified.

Aspects that should be taken into consideration, for this purpose, are the further liberalisation of the air space as a means of reducing the unit transportation costs, not only at an international but also at a national level. Inter-island transportation must be fomented so as to enhance an equitably distributed tourism, over the different islands.

Last but not least, attempts should be made as regards small elements of high value-added, namely *ecotourism*, with the exploitation of the mountain resources, boat trips, cruises or scuba diving.

As regards *industry and free trade areas*, these two sectors currently represent a limited role in the country's economy, mainly constrained by the limited dimension of the market, lack of resources, higher than average production costs, a small industrial tradition and a limited human resources' qualification, as well as a manifest external dependency and irregular supplies.

Considering the Mauritian experience and given the existence of several constraints, namely in terms of the end of the preferential market access and the introduction of the MFA, we consider that it would be best for Cape Verde to rely on light manufacturing other than textiles, as it is the case of Seychelles. Notwithstanding, the textile sector needn't be forgotten, as there are still some options for growth in terms of the African Growth and Opportunity Act (AGOA).

In terms of *light manufacturing* option, both Seychelles and the Mauritius have made clear attempts to succeed at this level. Considering the path chosen by both countries to focus on export-oriented industries, we consider that an industrial displacement, aiming at the transformation of imported components into exportable goods, is necessary.

Attention should be paid to fish processing and handicraft as well as to the light assembly of electronic components, following a logic of value-added goods and services, taking, for this purpose, advantage of the opportunities offered by the information technologies.

Additionally, as regards the potential of extractive industries, LOURENÇO and FOY (2004) consider that Cape Verde has potential to grow in terms of the extraction of salt, limestone, clay and stone, the latter mainly used in construction.

Nonetheless, import substitution industries are still necessary, either to reduce the country's external dependency or to construct and adequate industrial base. Considering the Cape Verdean options, we conclude on the potential introduction or greater development of industries such as brewing, soft drinks, animal feed, meat and dairy products, paints, furniture, soaps, detergents and cigarettes, all of which were successfully introduced in Seychelles in a import substitution industrialisation strategy.

To sum up, we consider that the Cape Verdean industrialisation process and the country's subsequent economic development will necessarily need to be based on the

construction of adequate infrastructure and on the qualification of the population, with a special emphasis on computers and languages. Indeed, the existence of adequate infrastructure and human resources are pre-requisites for the attraction of foreign direct investment, being as important as financial incentives such as tax holidays.

Finally, as regards the *offshore sector*, our benchmark countries have made attempts to develop both financial and non-financial centres, given their diversification strategy. Despite the positive considerations of some authors such as BURGO (2003), and although the Mauritian experience was positive, we consider that, as in the case of the textile-based manufacturing sector, the momentum of the financial offshore sector has elapsed. Indeed, we support the opinion that financial openness in itself is not a panacea. Consequently, we believe that the non-financial offshore center is a much better option for Cape Verde.

We concluded that Cape Verde should focus its attention on ship registration, with the introduction of flags of convenience. As regards the tourism sector, potential solutions are related to aircraft registration, to the creation of a regional hub for passengers and freight, a regional centre for air transport or even a duty free shopping area.

Additionally, as in the case of Mauritius, Cape Verde can also develop its potential in terms of a call centre. Attempts to become a tourism hub and a cyber island, given the Mauritian experience, are probably currently too ambitious, as Cape Verde still needs to expand its tourism sector and much still needs to be done in terms of a well educated and computer literate workforce. Consequently, these could only be long-term options.

As a final comment, and keeping in mind SUBRAMANIAN and ROY (2001), we believe that attempting to replicate other countries' experiences might be hazardous. This is partly true due to the fact that the trading environment is now less favourable than when Mauritius and Seychelles initiated their path. However, we consider that it is extremely useful to look upon other countries while searching for the adequate sustainable path given the capacity to analyse what is went right and what did not work.

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ANNEXES

Table 1 – Vulnerability Indexes: Briguglio, Commonwealth Secretariat and UN (Alphabetical Order)

	BRIGUGLIO		Commonwealth Secretariat		UN			BRIGUGLIO		Commonwealth Secretariat		UN	
Country	Index	Rank	Index	Rank	Index	Rank	Country	Index	Rank	Index	Rank	Index	Rank
Afganistan	0.364	84	N/A	N/A	44.89	55	Kuwait	0.468	47	N/A	N/A	N/A	N/A
Algeria	0.323	91	5.198	53	41.30	72	Laos	N/A	N/A	N/A	N/A	45.65	50
Angola	N/A	N/A	6.282	31	55.19	25	Lebanon	N/A	N/A	N/A	N/A	41.90	66
Antigua & Barbuda	0.843	1	11.246	2	41.20	73	Lesotho	N/A	N/A	5.985	34	53.11	28
Argentina	0.157	113	3.539	109	15.22	125	Liberia	0.439	58	N/A	N/A	63.62	4
Australia	0.322	92	N/A	N/A	N/A	N/A	Libya	0.376	78	6.536	25	54.01	26
Austria	0.362	86	N/A	N/A	N/A	N/A	Madagascar	0.428	62	4.785	89	26.75	105
Bahamas	0.633	11	10.433	4	45.37	53	Malawi	0.534	30	5.200	52	41.57	67
Bahrain	0.588	21	7.748	16	48.15	45	Malaysia	0.488	40	5.903	36	16.55	122
Bangaladesh	0.423	65	4.744	91	23.77	115	Maldives	0.579	22	8.654	9	32.18	92
Barbados	0.595	20	5.670	38	36.54	82	Mali	0.5577	23	5.083	58	48.41	44
Belgium	0.429	60	N/A	N/A	N/A	N/A	Malta	0.605	16	6.857	22	38.98	79
Belize	0.611	15	6.652	23	40.47	77	Mauritania	0.558	27	6.068	33	41.42	69
Benin	0.485	43	5.060	61	58.68	10	Mauritius	0.614	14	6.51	27	35.21	86
Bhutan	N/A	N/A	5.390	45	42.27	65	Mexico	0.254	107	3.194	111	15.47	124
Bolivia	0.450	52	4.691	93	27.24	103	Mongolia	N/A	N/A	N/A	N/A	49.73	41
Botswana	0.534	29	10.158	5	N/A	N/A	Morocco	0.388	74	4.772	90	33.82	88
Brazil	0.110	114	3.433	110	15.20	126	Mozambique	0.389	73	4.907	80	37.36	81
Brunei	N/A	N/A	N/A	N/A	51.07	35	Myanmar	N/A	N/A	4.392	100	49.82	40
Burkina Faso	N/A	N/A	4.923	77	44.58	57	Namibia	N/A	N/A	6.527	26	N/A	N/A
Burundi	N/A	N/A	4.935	75	51.55	33	Nepal	0.456	51	5.173	55	36.37	83
Cambodia	N/A	N/A	N/A	N/A	61.00	6	Netherlands	0.449	53	N/A	N/A	N/A	N/A
Cameroon	0.365	82	4.952	74	31.59	93	New Zealand	0.410	68	N/A	N/A	N/A	N/A
Canada	0.204	110	N/A	N/A	N/A	N/A	Nicaragua	N/A	N/A	4.920	79	43.16	61
Cape Verde	0.498	38	4.956	73	56.98	16	Niger	0.423	64	4.957	72	58.98	9
Central African Republic	N/A	N/A	4.802	85	42.43	64	Nigeria	0.309	94	5.416	44	58.41	12
Chad	0.686	7	5.120	56	64.41	3	Norway	0.324	90	N/A	N/A	N/A	N/A
Chile	0.377	77	5.016	68	25.09	109	Oman	0.416	67	5.582	40	49.05	43
China, Republic	0.299	97	3.744	108	4.18	128	Pakistan	0.394	72	4.795	87	22.21	118
Colombia	0.292	100	4.078	105	24.28	112	Panama	0.503	36	4.995	69	28.89	99
Comoros	0.602	17	5.425	43	55.36	24	Papua New Guinea	0.487	42	6.308	30	41.4	70
Congo (Dem. Rep.)	0.500	37	5.186	54	51.89	30	Paraguay	0.458	49	5.346	47	43.05	63
Congo (Rep.)	N/A	N/A	5.961	35	46.90	46	Peru	0.240	109	4.461	97	26.13	107
Costa Rica	N/A	N/A	5.090	57	23.99	114	Philippines	0.368	81	4.595	95	25.00	110
Cote d' Ivoire	0.440	56	5.626	39	32.81	90	Portugal	0.443	55	N/A	N/A	N/A	N/A
Cuba	N/A	N/A	N/A	N/A	41.50	68	Qatar	N/A	N/A	N/A	N/A	55.84	21
Cyprus	0.568	26	5.474	42	29.87	97	Rwanda	N/A	N/A	4.797	86	55.85	20
Denmark	0.364	83	N/A	N/A	N/A	N/A	S. Tome and Principe	N/A	N/A	7.690	17	59.07	8
Djibouti	N/A	N/A	7.932	14	46.60	47	Samoa	N/A	N/A	7.371	20	52.45	29
Dominica	0.600	18	8.122	12	56.05	18	Saudi Arabia	0.445	54	N/A	N/A	60.01	7
Dominican Republic	0.512	34	4.858	83	45.54	52	Senegal	0.521	31	5.026	67	40.86	76
Ecuador	0.349	87	5.050	64	29.40	98	Seychelles	0.756	3	6.373	28	57.02	14
Egypt	N/A	N/A	4.723	92	24.85	111	Sierra Leone	0.405	70	5.060	61	46.3	48
El Salvador	0.432	59	4.434	98	28.36	100	Singapore	0.649	8	8.651	10	31.02	96
Equatorial Guinea	N/A	N/A	N/A	N/A	55.81	22	Solomon Islands	N/A	N/A	8.398	11	53.93	27
Eritrea	N/A	N/A	N/A	N/A	27.06	104	Somalia	N/A	N/A	N/A	N/A	58.04	13
Ethiopia	0.504	35	4.786	88	44.58	56	South Africa	N/A	N/A	4.222	104	22.43	117
Fiji	0.573	24	8.888	8	37.39	80	Spain	0.305	96	N/A	N/A	N/A	N/A
Finland	0.308	95	N/A	N/A	N/A	N/A	SriLanka	0.468	46	5.076	60	26.18	106
France	0.319	93	N/A	N/A	N/A	N/A	St. Kitts and Nevis	0.733	5	6.362	29	50.26	37
Gabon	0.476	44	6.229	32	49.96	39	St. Lucia	0.715	6	7.449	19	56.99	15
Gambia	0.596	19	9.331	7	61.83	5	St. Vincent	0.649	9	6.563	24	51.65	32
Ghana	N/A	N/A	5.044	65	43.13	62	Sudan	0.264	105	4.644	94	44.45	58
Germany	0.276	103	N/A	N/A	N/A	N/A	Suriname	0.368	80	4.921	78	44.28	59
Greece	0.402	71	N/A	N/A	N/A	N/A	Swaziland	0.488	41	9.633	6	35.02	87
Grenada	0.635	10	7.848	15	43.67	60	Sweden	0.282	101	N/A	N/A	N/A	N/A
Guatemala	0.409	69	4.431	99	25.99	108	Switzerland	0.339	88	N/A	N/A	N/A	N/A
Guinea	N/A	N/A	5.282	48	45.77	49	Syrian Arab Republic	0.280	102	4.830	84	51.04	36
Guinea Bissau	0.520	32	N/A	N/A	55.91	19	Tanzania	0.497	39	5.035	66	36.23	84
Guinea Equatorial	N/A	N/A	7.029	21	N/A	N/A	Thailand	0.458	50	4.264	103	17.92	120
Guyana	0.519	33	7.953	13	51.41	34	Togo	N/A	N/A	5.248	51	43.30	54
Haiti	0.461	48	4.474	96	45.61	51	Tonga	0.759	2	10.439	3	58.63	11
Honduras	0.428	61	5.373	46	35.73	85	Trininad and Tobago	0.416	66	5.264	49	39.03	78
Hungary	0.372	79	N/A	N/A	N/A	N/A	Tunisia	0.440	57	5.06	61	41.08	74
Iceland	0.292	99	N/A	N/A	N/A	N/A	Turkey	N/A	N/A	4.076	106	19.33	119
India	0.243	108	3.744	108	12.20	127	Tuvalu	N/A	N/A	N/A	N/A	73.68	2
Indonesia	N/A	N/A	4.301	102	17.38	121	Uganda	N/A	N/A	4.876	82	56.52	17
Iran	N/A	N/A	4.976	70	50.00	38	United Arab Emirates	N/A	N/A	N/A	N/A	55.55	23
Ireland	0.428	63	N/A	N/A	N/A	N/A	United Kingdom	0.274	104	N/A	N/A	N/A	N/A

Source: BRIGUGLIO (1995), ATKINS *et al*. (2001) and UN-CDP (2000).

Table 2 – Brigugulio's Vulnerability Index (Rank Order)

Country	Index	Rank	Country	Index	Rank
Antigua & Barbuda	0.843	1	Liberia	0.439	58
Tonga	0.759	2	El Salvador	0.432	59
Seychelles	0.756	3	Belgium	0.429	60
Vanuatu	0.751	4	Honduras	0.428	61
St. Kitts and Nevis	0.733	5	Madagascar	0.428	62
St. Lucia	0.715	6	Ireland	0.428	63
Chad	0.686	7	Niger	0.423	64
Singapore	0.649	8	Bangaladesh	0.423	65
St. Vincent	0.649	9	Trininad and Tobago	0.416	66
Grenada	0.635	10	Oman	0.416	67
Bahamas	0.633	11	New Zealand	0.410	68
Jamaica	0.631	12	Guatemala	0.409	69
Kiribati	0.627	13	Sierra Leone	0.405	70
Mauritius	0.614	14	Greece	0.402	71
Belize	0.611	15	Pakistan	0.394	72
Malta	0.605	16	Mozambique	0.389	73
Comoros	0.602	17	Morocco	0.388	74
Dominica	0.600	18	Israel	0.384	75
Gambia	0.596	19	Zimbabwe	0.377	76
Barbados	0.595	20	Chile	0.377	77
Bahrain	0.588	21	Libya	0.376	78
Maldives	0.579	22	Hungary	0.372	79
Mali	0.5577	23	Suriname	0.368	80
Fiji	0.573	24	Philippines	0.368	81
Jordan	0.572	25	Cameroon	0.365	82
Cyprus	0.568	26	Denmark	0.364	83
Mauritania	0.558	27	Afganistan	0.364	84
Yemen Arab Republic	0.540	28	Yugoslavia	0.363	85
Botswana	0.534	29	Austria	0.362	86
Malawi	0.534	30	Ecuador	0.349	87
Senegal	0.521	31	Switzerland	0.339	88
Guinea Bissau	0.520	32	Italy	0.336	89
Guyana	0.519	33	Norway	0.324	90
Dominican Republic	0.512	34	Algeria	0.323	91
Ethiopia	0.504	35	Australia	0.322	92
Panama	0.503	36	France	0.319	93
Congo (Dem. Rep.)	0.500	37	Nigeria	0.309	94
Cape Verde	0.498	38	Finland	0.308	95
Tanzania	0.497	39	Spain	0.305	96
Malaysia	0.488	40	China, Republic	0.299	97
Swaziland	0.488	41	Korea (Dem. Rep.)	0.295	98
Papua New Guinea	0.487	42	Iceland	0.292	99
Benin	0.485	43	Colombia	0.292	100
Gabon	0.476	44	Sweden	0.282	101
Kenya	0.469	45	Syrian Arab Republic	0.280	102
SriLanka	0.468	46	Germany	0.276	103
Kuwait	0.468	47	United Kingdom	0.274	104
Haiti	0.461	48	Sudan	0.264	105
Paraguay	0.458	49	Uruguay	0.261	106
Thailand	0.458	50	Mexico	0.254	107
Nepal	0.456	51	India	0.243	108
Bolivia	0.450	52	Peru	0.240	109
Netherlands	0.449	53	Canada	0.204	110
Saudi Arabia	0.445	54	Japan	0.179	111
Portugal	0.443	55	United States	0.159	112
Cote d' Ivoire	0.440	56	Argentina	0.157	113
Tunisia	0.440	57	Brazil	0.110	114

Source: BRIGUGLIO (1995)

Table 3 – Vulnerability Adjusted Development Index Compared to GDP per capita

Country	VADI Index*	Rank	GDPPC Index†	Rank	Country	VADI Index*	Rank	GDPPC Index†	Rank
Afghanistan	0.273	2	0.181	11	Korea	0.687	91	0.668	82
Algeria	0.623	82	0.569	69	Kuwait	0.681	90	0.830	96
Antigua & Barbuda	0.394	21	0.631	78	Liberia	0.431	36	0.301	27
Argentina	0.724	96	0.606	75	Libya	0.671	89	0.717	85
Australia	0.786	102	0.893	100	Madagascar	0.345	15	0.118	6
Austria	0.774	100	0.911	103	Malawi	0.281	4	0.095	4
Bahamas	0.582	72	0.798	91	Malaysia	0.531	64	0.549	67
Bahrain	0.587	75	0.761	90	Maldives	0.380	18	0.338	29
Bangladesh	0.357	16	0.136	9	Mali	0.295	8	0.168	10
Barbados	0.571	68	9,736	88	Malta	0.553	67	0.712	83
Belgium	0.734	97	0.896	101	Mauritania	0.378	17	0.314	28
Belize	0.452	41	0.515	61	Mauritius	0.459	45	0.532	65
Benin	0.394	20	0.273	23	Mexico	0.648	85	0.551	68
Bolivia	0.450	40	0.350	32	Morocco	0.512	59	0.412	68
Botswana	0.489	51	0.513	60	Mozambique	0.305	11	0.000	1
Brazil	0.734	98	0.579	71	Nepal	0.333	13	0.122	8
Cameroon	0.542	66	0.448	49	Netherlands	0.724	95	0.897	102
Canada	0.863	112	0.930	105	New Zealand	0.722	94	0.854	97
Cape Verde	0.439	37	0.376	37	Niger	0.406	26	0.235	17
Chad	0.217	1	0.120	7	Nigeria	0.454	43	0.217	13
Chile	0.572	70	0.521	62	Norway	0.815	106	0.953	110
China, Republic	0.472	49	0.244	19	Oman	0.651	86	0.718	86
Colombia	0.585	73	0.461	51	Pakistan	0.419	31	0.232	16
Comoros	0.334	14	0.270	22	Panama	0.520	62	0.542	66
Congo	0.464	47	0.428	45	Papua New Guinea	0.466	48	0.420	44
Cote d'Ivoire	0.481	50	0.403	40	Paraguay	0.522	63	0.501	58
Cyprus	0.586	74	0.740	89	Peru	0.641	84	0.523	63
Denmark	0.793	103	0.950	108	Philippines	0.493	55	0.354	33
Dominica	0.455	44	0.510	59	Portugal	0.613	79	0.668	81
Dominican Republic	0.423	32	0.359	34	Saudi Arabia	0.641	83	0.727	87
Ecuador	0.540	65	0.430	46	Senegal	0.424	33	0.369	36
El Salvador	0.504	58	0.440	47	Seychelles	0.443	39	0.643	80
Ethiopia	0.279	3	0.063	2	Sierra Leone	0.406	27	0.217	14
Fiji	0.459	46	0.491	57	Singapore	0.580	71	0.809	94
Finland	0.823	107	0.953	109	Spain	0.748	99	0.802	94
France	0.798	104	0.916	104	Sri Lanka	0.404	24	0.275	24
Gabon	0.571	69	0.617	77	St. Kitts and Nevis	0.419	30	0.571	70
Gambia	0.303	10	0.202	12	St. Lucia	0.408	29	0.531	64
Germany	0.831	109	0.939	107	St. Vincent	0.408	28	0.464	52
Greece	0.655	87	0.713	84	Sudan	0.515	60	0.293	26
Grenada	0.426	34	0.487	55	Surinam	0.620	81	0.609	76
Guatemala	0.499	56	0.408	41	Swaziland	0.453	42	0.393	39
Guinea Bissau	0.295	7	0.110	5	Sweden	0.837	110	0.956	111
Guyana	0.386	19	0.290	25	Switzerland	0.830	108	1.000	114
Haiti	0.404	25	0.268	21	Syrian Arab Republic	0.594	76	0.469	53
Honduras	0.492	52	0.412	42	Tanzania	0.284	5	0.066	3
Hungary	0.611	77	0.593	73	Thailand	0.493	54	0.443	48
Iceland	0.840	111	0.972	113	Tonga	0.317	12	0.393	38
India	0.500	57	0.242	18	Trinidad and Tobago	0.612	78	0.640	79
Ireland	0.688	92	0.804	93	Tunisia	0.515	61	0.470	54
Israel	0.714	93	0.812	95	United Kingdom	0.807	105	0.888	99
Italy	0.776	101	0.888	98	United States	0.890	113	0.939	106
Jamaica	0.428	35	0.487	56	Uruguay	0.665	88	0.591	72
Japan	0.895	114	0.968	112	Vanuatu	0.294	6	0.339	72
Jordan	0.443	38	0.459	50	Yemen Arab Republic	0.403	23	0.345	31
Kenya	0.394	22	0.258	20	Yugoslavia	0.616	80	0.595	74
Kiribati	0.301	9	0.229	15	Zimbabwe	0.493	53	0.363	35

*VADI (Vulnerability Adjusted Development Index) is computed on the basis of the following formula: [(1-*VUL.INDEX*) + *GDP.INDEX*)2]. †The GDP per capita index was standardized in the same manner as the Vulnerability Index. The highest rank refers to the highest GDP per capita.

Source: BRIGUGLIO (1995: 1631)

Table 4 – Countries with an Overrated GDP per capita

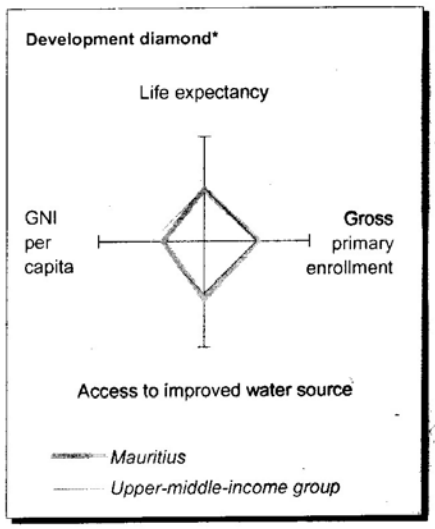
Country	Rank Diff.	Country	Rank Diff.	Country	Rank Diff.
Antigua & Barbuda	57	Malta	16	Kiribati	6
Seychelles	41	Dominica	15	Guyana	6
St. Kitts and Nevis	40	Cyprus	15	Chad	6
St. Lucia	35	Bahrain	15	Saudi Arabia	4
Tonga	26	Jordan	12	Panama	4
Vanuatu	24	Mauritania	11	Senegal	3
St. Vincent	24	Maldives	11	Malaysia	3
Singapore	23	Fiji	11	Benin	3
Jamaica	21	Botswana	9	Mali	2
Grenada	21	Afghanistan	9	Gambia	2
Mauritius	20	Yemen Arab Republic	8	Dominican Republic	2
Belize	20	Gabon	8	Trinidad and Tobago	1
Barbados	20	Comoros	8		
Bahamas	19	Kuwait	6		

*The figures show the difference between the GDP per capita rank and the VADI rank. Developing countries are classified as having an overrated GDP per capita if their GDP per capita rank higher than their VADI rank.

Source: BRIGUGLIO (1995: 1632)

Table 5 – Mauritius at a Glance

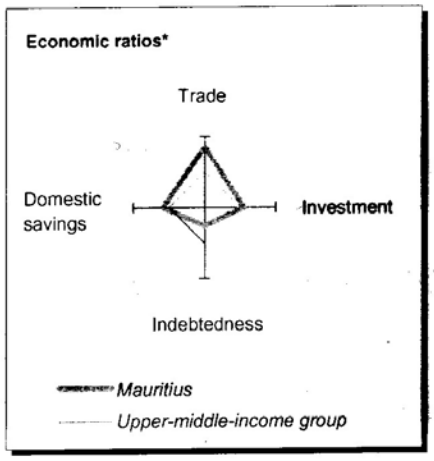
POVERTY and SOCIAL	Mauritius	Sub-Saharan Africa	Upper-middle-income
2002			
Population, mid-year *(millions)*	1.2	688	331
GNI per capita *(Atlas method, US$)*	3,900	450	5,040
GNI *(Atlas method, US$ billions)*	4.7	306	1,668
Average annual growth, 1996-02			
Population *(%)*	1.1	2.4	1.2
Labor force *(%)*	1.5	2.5	1.8
Most recent estimate (latest year available, 1996-02)			
Poverty *(% of population below national poverty line)*	..	..	..
Urban population *(% of total population)*	42	33	75
Life expectancy at birth *(years)*	73	46	73
Infant mortality *(per 1,000 live births)*	15	105	19
Child malnutrition *(% of children under 5)*	..	..	..
Access to an improved water source *(% of population)*	100	58	90
Illiteracy *(% of population age 15+)*	15	37	7
Gross primary enrollment *(% of school-age population)*	109	86	105
Male	109	92	106
Female	108	80	105



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

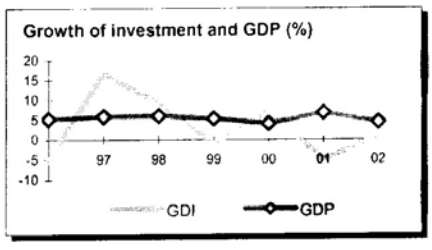
	1982	1992	2001	2002
GDP *(US$ billions)*	1.1	3.0	4.5	4.5
Gross domestic investment/GDP	21.3	28.9	23.3	21.9
Exports of goods and services/GDP	45.6	61.2	65.8	60.7
Gross domestic savings/GDP	15.0	25.4	26.0	25.7
Gross national savings/GDP	12.8	28.3	27.7	27.1
Current account balance/GDP	-3.8	0.0	5.4	..
Interest payments/GDP	3.2	1.8	0.8	1.1
Total debt/GDP	53.3	35.3	38.1	45.1
Total debt service/exports	18.2	9.2	6.6	9.4
Present value of debt/GDP	..	..	36.6	..
Present value of debt/exports	..	..	54.2	..

	1982-92	1992-02	2001	2002	2002-06
(average annual growth)					
GDP	6.4	5.2	6.7	4.4	5.2
GDP per capita	5.6	4.0	5.5	3.3	4.2
Exports of goods and services	11.0	5.7	10.7	9.4	3.3

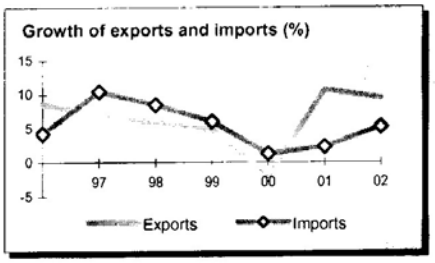


STRUCTURE of the ECONOMY

	1982	1992	2001	2002
(% of GDP)				
Agriculture	15.7	11.4	6.6	7.0
Industry	24.8	33.1	31.3	31.0
Manufacturing	16.1	23.8	23.3	22.9
Services	59.6	55.6	62.1	62.0
Private consumption	70.4	62.0	61.0	65.8
General government consumption	14.7	12.6	12.9	8.5
Imports of goods and services	51.9	64.7	63.1	56.9



	1982-92	1992-02	2001	2002
(average annual growth)				
Agriculture	1.0	0.5	31.6	6.6
Industry	10.0	5.4	7.0	2.9
Manufacturing	10.5	5.3	6.7	2.3
Services	5.8	6.2	6.6	5.6
Private consumption	6.6	5.6	3.6	1.6
General government consumption	4.0	4.8	5.5	4.5
Gross domestic investment	13.4	3.7	-4.9	0.7
Imports of goods and services	13.6	5.4	2.3	5.2



Note: 2002 data are preliminary estimates.

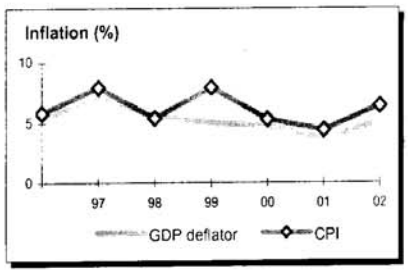
This table was produced from the Development Economics central database.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

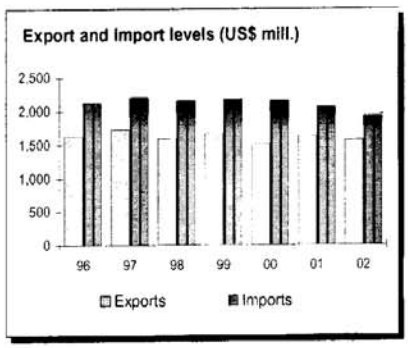
Source: WORLD BANK (2004a)

Table 5 – Mauritius at a Glance (continued)

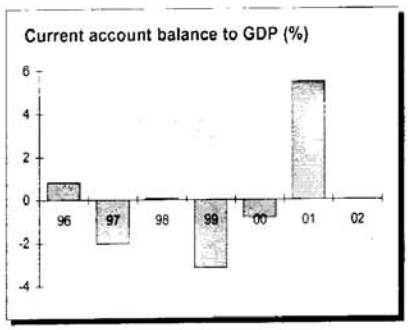
PRICES and GOVERNMENT FINANCE	1982	1992	2001	2002
Domestic prices				
(% change)				
Consumer prices	13.4	2.9	4.4	6.4
Implicit GDP deflator	9.8	6.1	3.7	5.1
Government finance				
(% of GDP, includes current grants)				
Current revenue	20.7	22.5	18.2	18.5
Current budget balance	-5.4	2.1	-3.3	-1.9
Overall surplus/deficit	-12.5	-2.6	-5.7	-6.0



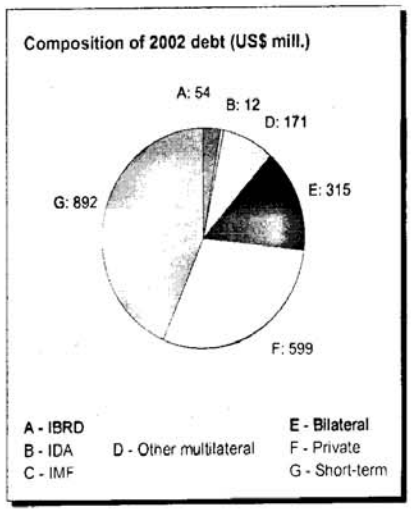
TRADE	1982	1992	2001	2002
(US$ millions)				
Total exports (fob)	380	1,283	1,633	1,569
Sugar	228	348	267	283
Cut flowers	..	..	..	0
Manufactures	124	804	1,177	1,101
Total imports (cif)	491	1,602	2,059	1,923
Food	135	201	291	316
Fuel and energy	87	132	236	184
Capital goods	73	384	465	456
Export price index *(1995=100)*	..	94	83	84
Import price index *(1995=100)*	..	97	89	89
Terms of trade *(1995=100)*	..	97	93	94



BALANCE of PAYMENTS	1982	1992	2001	2002
(US$ millions)				
Exports of goods and services	508	1,839	2,767	2,749
Imports of goods and services	545	1,958	2,716	2,577
Resource balance	-37	-119	52	172
Net income	-47	0	12	5
Net current transfers	23	88	62	61
Current account balance	-41	0	247	..
Financing items (net)	54	192	-61	..
Changes in net reserves	-13	-192	-185	-243
Memo:				
Reserves including gold *(US$ millions)*	37	896	790	1,030
Conversion rate *(DEC, local/US$)*	10.1	15.8	27.6	30.2



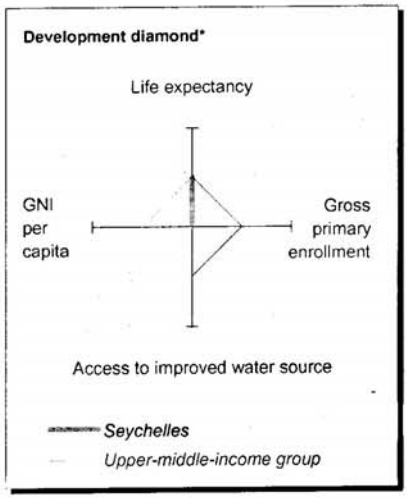
EXTERNAL DEBT and RESOURCE FLOWS	1982	1992	2001	2002
(US$ millions)				
Total debt outstanding and disbursed	582	1,051	1,723	2,043
IBRD	61	151	71	54
IDA	20	18	13	12
Total debt service	93	184	202	264
IBRD	8	34	16	24
IDA	0	0	1	1
Composition of net resource flows				
Official grants	16	12	11	..
Official creditors	28	-21	-34	4
Private creditors	18	20	-28	209
Foreign direct investment	2	15	-48	..
Portfolio equity	0	0	0	..
World Bank program				
Commitments	6	15	0	0
Disbursements	8	9	4	1
Principal repayments	3	22	13	22
Net flows	5	-13	-9	-21
Interest payments	5	12	4	2
Net transfers	0	-25	-13	-23



Source: WORLD BANK (2004a)

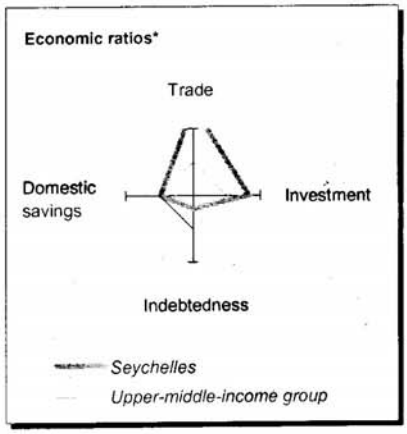
Table 6 – Seychelles at a Glance

POVERTY and SOCIAL	Seychelles	Sub-Saharan Africa	Upper-middle-income
2002			
Population, mid-year *(millions)*	0.08	688	331
GNI per capita *(Atlas method, US$)*	..	450	5,040
GNI *(Atlas method, US$ billions)*	..	306	1,668
Average annual growth, 1996-02			
Population *(%)*	1.5	2.4	1.2
Labor force *(%)*	..	2.5	1.8
Most recent estimate (latest year available, 1996-02)			
Poverty *(% of population below national poverty line)*	..	..	..
Urban population *(% of total population)*	65	33	75
Life expectancy at birth *(years)*	73	46	73
Infant mortality *(per 1,000 live births)*	9	105	19
Child malnutrition *(% of children under 5)*	..	..	..
Access to an improved water source *(% of population)*	..	58	90
Illiteracy *(% of population age 15+)*	..	37	7
Gross primary enrollment *(% of school-age population)*	..	86	105
Male	..	92	106
Female	..	80	105

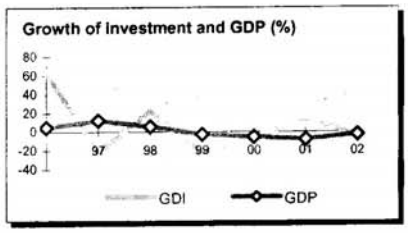


KEY ECONOMIC RATIOS and LONG-TERM TRENDS	1982	1992	2001	2002
GDP *(US$ billions)*	0.15	0.43	0.57	0.63
Gross domestic investment/GDP	32.3	21.2	37.2	33.1
Exports of goods and services/GDP	52.5	56.0	84.6	85.0
Gross domestic savings/GDP	8.8	17.6	8.3	21.5
Gross national savings/GDP	6.1	19.5	6.9	..
Current account balance/GDP	-27.5	-1.6	-17.0	..
Interest payments/GDP	0.5	1.1	0.9	0.7
Total debt/GDP	34.3	37.8	46.5	64.7
Total debt service/exports	3.0	7.1	3.3	2.8
Present value of debt/GDP	..	..	37.2	..
Present value of debt/exports	..	..	41.8	..

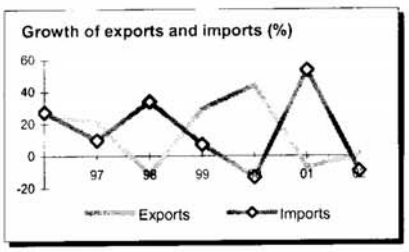
	1982-92	1992-02	2001	2002	2002-06
(average annual growth)					
GDP	5.8	1.3	-8.1	-2.4	0.6
GDP per capita	4.9	-0.3	-9.4	-3.8	-0.7
Exports of goods and services	14.1	9.1	-7.0	0.0	1.3



STRUCTURE of the ECONOMY	1982	1992	2001	2002
(% of GDP)				
Agriculture	6.4	3.8	2.9	2.8
Industry	15.5	18.2	24.8	24.7
Manufacturing	8.5	11.9	14.4	13.5
Services	78.1	78.0	72.3	72.5
Private consumption	56.2	52.0	56.7	49.7
General government consumption	34.9	30.4	34.9	28.8
Imports of goods and services	76.0	59.6	113.5	96.5



	1982-92	1992-02	2001	2002
(average annual growth)				
Agriculture	-0.9	-1.3	-7.7	1.9
Industry	6.5	7.5	-11.9	3.0
Manufacturing	9.9	5.7	-8.7	3.0
Services	6.1	-0.5	-6.5	-4.7
Private consumption	5.0	7.6	144.4	-19.5
General government consumption	4.7	3.2	22.7	1.8
Gross domestic investment	6.5	5.1	11.8	-2.4
Imports of goods and services	13.6	12.4	53.6	-9.4



Note: 2002 data are preliminary estimates.

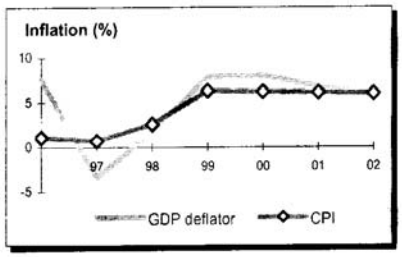
This table was produced from the Development Economics central database.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

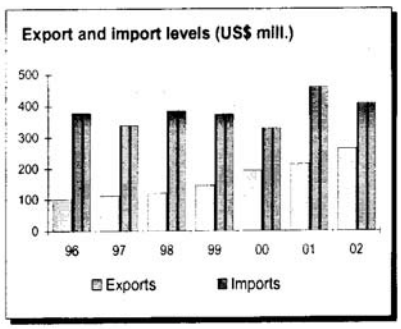
Source: WORLD BANK (2004a)

Table 6 – Seychelles at a Glance (continued)

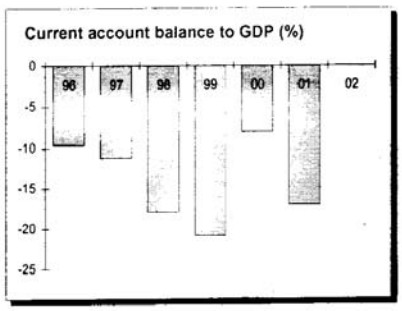
PRICES and GOVERNMENT FINANCE	1982	1992	2001	2002
Domestic prices				
(% change)				
Consumer prices	-0.9	3.2	6.1	6.0
Implicit GDP deflator	0.8	4.7	6.7	6.0
Government finance				
(% of GDP, includes current grants)				
Current revenue	..	40.5	42.7	44.5
Current budget balance	..	-0.9	-4.0	-4.8
Overall surplus/deficit	..	-7.1	-10.3	-10.3



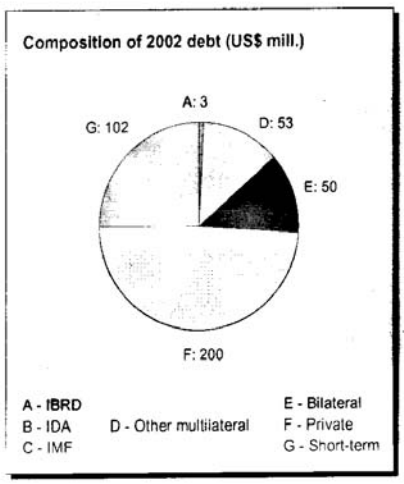
TRADE	1982	1992	2001	2002
(US$ millions)				
Total exports (fob)	..	19	216	264
Fish (fresh and frozen)	..	3	2	2
Shark fins	..	0	0	0
Manufactures	..	13	132	196
Total imports (cif)	..	192	460	408
Food	..	40	105	103
Fuel and energy	..	33	54	53
Capital goods	..	40	180	53
Export price index *(1995=100)*	..	75	178	182
Import price index *(1995=100)*	..	101	89	90
Terms of trade *(1995=100)*	..	74	200	202



BALANCE of PAYMENTS	1982	1992	2001	2002
(US$ millions)				
Exports of goods and services	81	243	499	510
Imports of goods and services	112	259	630	580
Resource balance	-31	-16	-131	-70
Net income	-4	-9	-18	-14
Net current transfers	..	17	4	5
Current account balance	-41	-7	-97	..
Financing items (net)	40	11	98	..
Changes in net reserves	0	-4	-1	-9
Memo:				
Reserves including gold *(US$ millions)*	..	..	32	50
Conversion rate *(DEC, local/US$)*	6.6	5.1	5.9	5.5



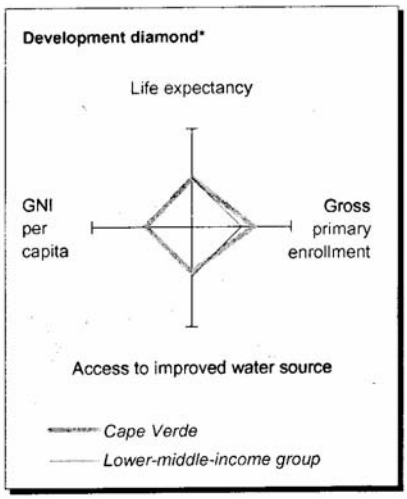
EXTERNAL DEBT and RESOURCE FLOWS	1982	1992	2001	2002
(US$ millions)				
Total debt outstanding and disbursed	51	164	265	408
IBRD	0	5	2	3
IDA	0	0	0	0
Total debt service	3	18	17	14
IBRD	0	1	1	0
IDA	0	0	0	0
Composition of net resource flows				
Official grants	5	9	10	..
Official creditors	8	2	0	-2
Private creditors	6	11	-4	132
Foreign direct investment	10	9	59	..
Portfolio equity	0	0	0	..
World Bank program				
Commitments	0	0	0	0
Disbursements	0	0	0	0
Principal repayments	0	1	0	0
Net flows	0	-1	0	0
Interest payments	0	0	0	0
Net transfers	0	-1	-1	0



Source: WORLD BANK (2004a)

Table 7 – Cape Verde at a Glance

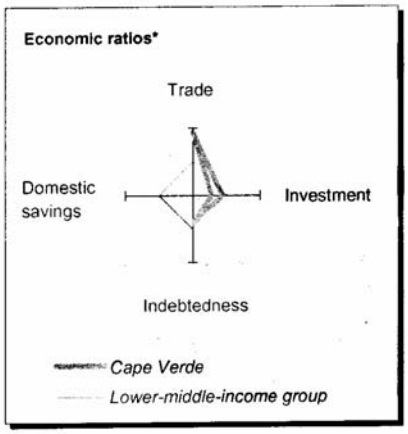
POVERTY and SOCIAL	Cape Verde	Sub-Saharan Africa	Lower-middle-income
2002			
Population, mid-year *(millions)*	0.46	688	2,411
GNI per capita *(Atlas method, US$)*	1,260	450	1,390
GNI *(Atlas method, US$ billions)*	0.58	306	3,352
Average annual growth, 1996-02			
Population *(%)*	2.6	2.4	1.0
Labor force *(%)*	3.6	2.5	1.2
Most recent estimate (latest year available, 1996-02)			
Poverty *(% of population below national poverty line)*	..	..	..
Urban population *(% of total population)*	64	33	49
Life expectancy at birth *(years)*	69	46	69
Infant mortality *(per 1,000 live births)*	30	105	30
Child malnutrition *(% of children under 5)*	..	..	11
Access to an improved water source *(% of population)*	74	58	81
Illiteracy *(% of population age 15+)*	24	37	13
Gross primary enrollment *(% of school-age population)*	139	86	111
Male	140	92	111
Female	137	80	110



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

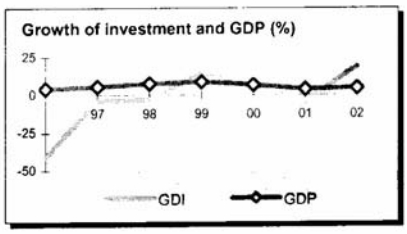
	1982	1992	2001	2002
GDP *(US$ billions)*	..	0.39	0.55	0.62
Gross domestic investment/GDP	..	34.5	19.0	21.6
Exports of goods and services/GDP	..	10.8	30.3	31.5
Gross domestic savings/GDP	..	-3.5	-14.4	-15.0
Gross national savings/GDP	..	29.3	6.7	8.4
Current account balance/GDP	..	-3.1	-15.8	..
Interest payments/GDP	..	0.7	0.7	8.0
Total debt/GDP	..	36.1	65.6	67.4
Total debt service/exports	2.5	8.3	5.5	32.1
Present value of debt/GDP	..	..	42.0	..
Present value of debt/exports	..	..	91.2	..

	1982-92	1992-02	2001	2002	2002-06
(average annual growth)					
GDP	4.7	6.3	3.8	4.6	..
GDP per capita	2.8	3.6	1.1	1.9	..
Exports of goods and services	-5.4	16.3	14.4	8.5	..

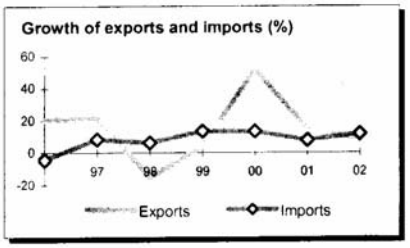


STRUCTURE of the ECONOMY

	1982	1992	2001	2002
(% of GDP)				
Agriculture	..	11.8	11.3	11.2
Industry	..	21.9	17.2	17.2
Manufacturing	..	9.9	8.3	8.2
Services	..	66.3	71.5	71.6
Private consumption	..	87.8	103.1	103.0
General government consumption	..	15.7	11.3	12.0
Imports of goods and services	..	48.8	63.7	68.0



	1982-92	1992-02	2001	2002
(average annual growth)				
Agriculture	-2.9	6.8	1.5	1.5
Industry	5.1	5.5	4.5	4.5
Manufacturing	7.7	6.6	4.7	4.7
Services	4.1	6.4	4.0	5.1
Private consumption	4.3	9.2	16.1	4.5
General government consumption	7.5	3.1	-44.4	10.8
Gross domestic investment	3.4	-2.6	-4.3	18.9
Imports of goods and services	3.6	8.7	7.7	11.7



Note: 2002 data are preliminary estimates.

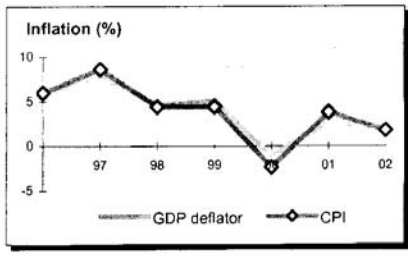
This table was produced from the Development Economics central database.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

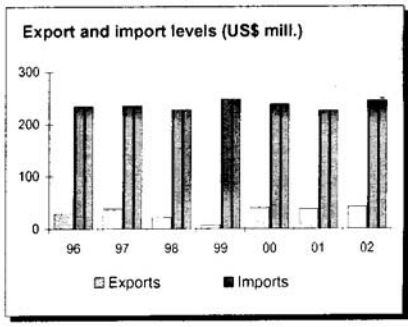
Source: WORLD BANK (2004a)

Table 7 – Cape Verde at a Glance (continued)

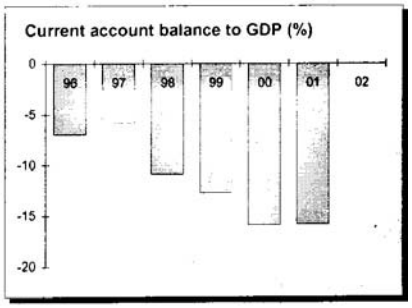
PRICES and GOVERNMENT FINANCE	1982	1992	2001	2002
Domestic prices				
(% change)				
Consumer prices	..	13.5	3.8	1.8
Implicit GDP deflator	..	3.4	2.7	1.8
Government finance				
(% of GDP, includes current grants)				
Current revenue	..	32.5	21.4	25.1
Current budget balance	..	14.5	-0.5	3.6
Overall surplus/deficit	..	-7.9	-10.9	-9.0



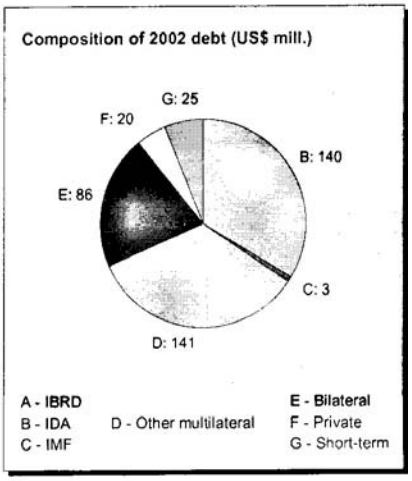
TRADE	1982	1992	2001	2002
(US$ millions)				
Total exports (fob)	..	4	37	42
Bananas	..	1	2	2
Fish	..	1	1	1
Manufactures	..	1	0	0
Total imports (cif)	..	180	226	245
Food	..	75	58	61
Fuel and energy	..	8	26	26
Capital goods	..	98	106	109
Export price index *(1995=100)*	..	87	127	129
Import price index *(1995=100)*	..	84	130	138
Terms of trade *(1995=100)*	..	104	98	94



BALANCE of PAYMENTS	1982	1992	2001	2002
(US$ millions)				
Exports of goods and services	31	43	167	194
Imports of goods and services	109	192	351	419
Resource balance	-78	-150	-184	-225
Net income	-4	1	-6	-10
Net current transfers	32	128	122	154
Current account balance	-15	-12	-87	..
Financing items (net)	20	27	92	..
Changes in net reserves	-5	-15	-5	-2
Memo:				
Reserves including gold *(US$ millions)*	43	76	106	108
Conversion rate *(DEC, local/US$)*	58.3	68.0	123.2	117.3

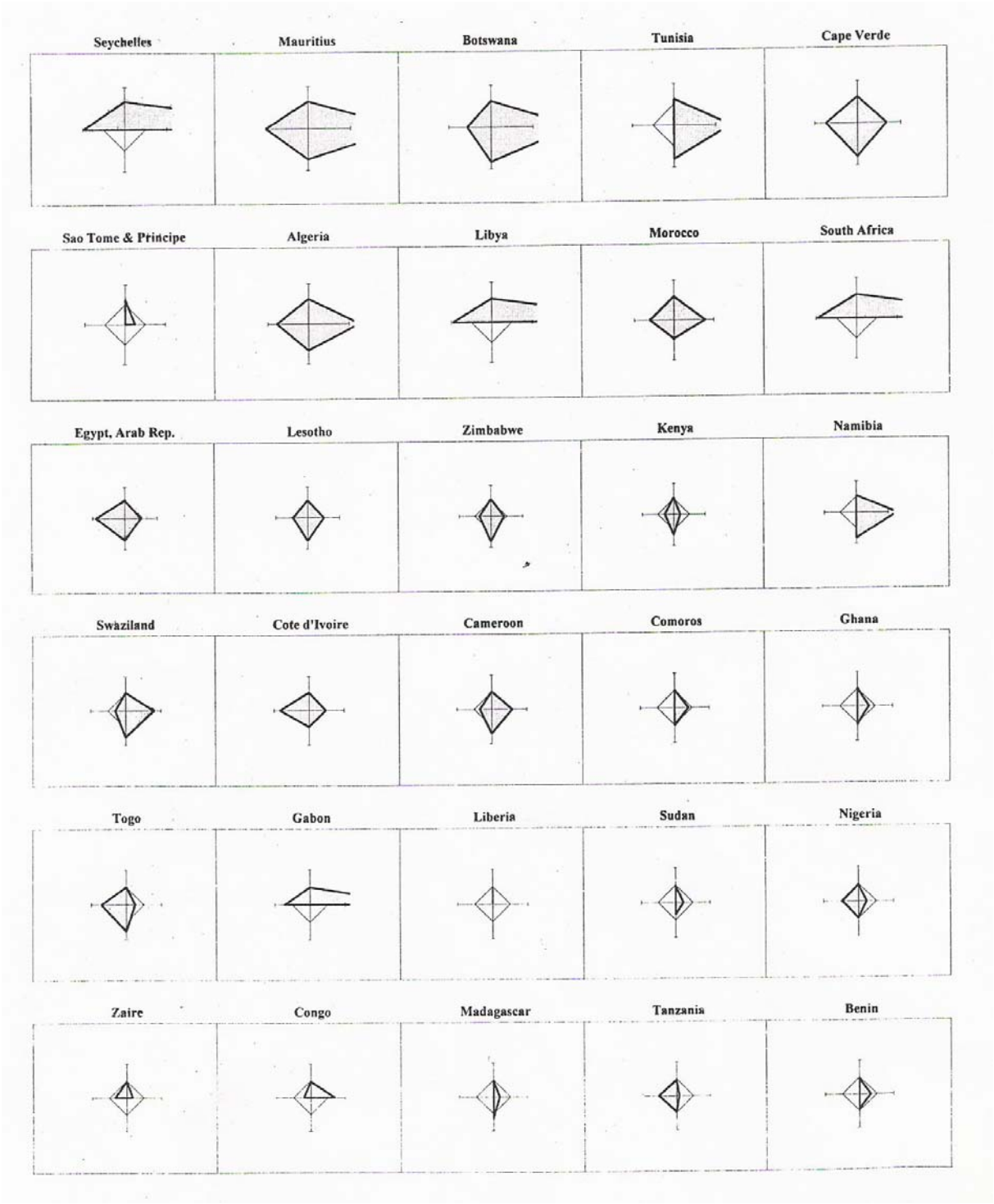


EXTERNAL DEBT and RESOURCE FLOWS	1982	1992	2001	2002
(US$ millions)				
Total debt outstanding and disbursed	59	142	361	415
IBRD	0	0	0	0
IDA	0	17	110	140
Total debt service	2	11	14	64
IBRD	0	0	0	0
IDA	0	0	1	1
Composition of net resource flows				
Official grants	32	63	23	..
Official creditors	22	11	33	20
Private creditors	0	0	8	1
Foreign direct investment	0	1	1	..
Portfolio equity	0	0	0	..
World Bank program				
Commitments	0	4	20	9
Disbursements	0	1	16	22
Principal repayments	0	0	0	0
Net flows	0	1	16	22
Interest payments	0	0	1	1
Net transfers	0	1	15	21



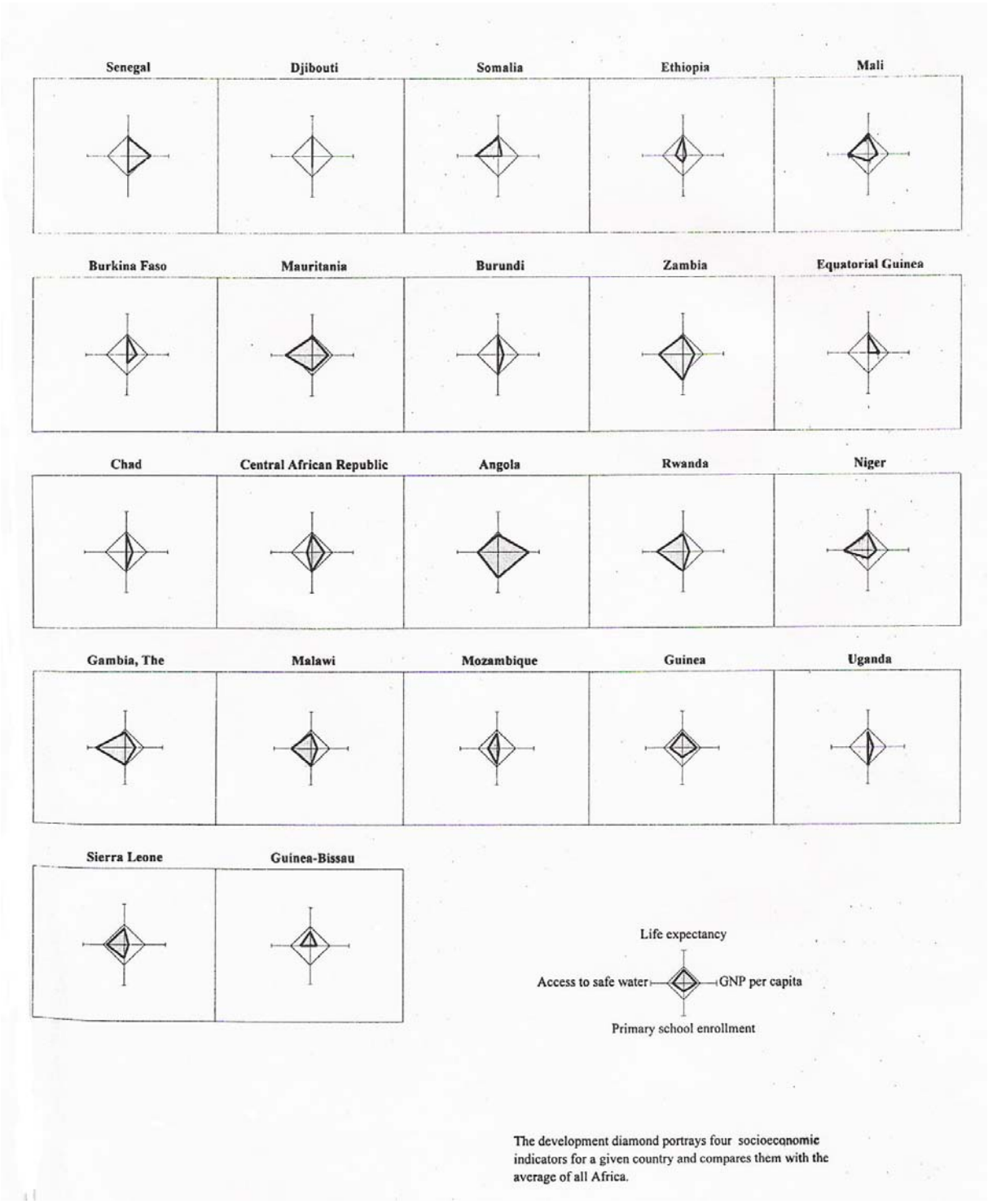
Source: WORLD BANK (2004a)

Figure 1 – Development Diamonds for all African Countries, 1993 (sorted by life expectancy)



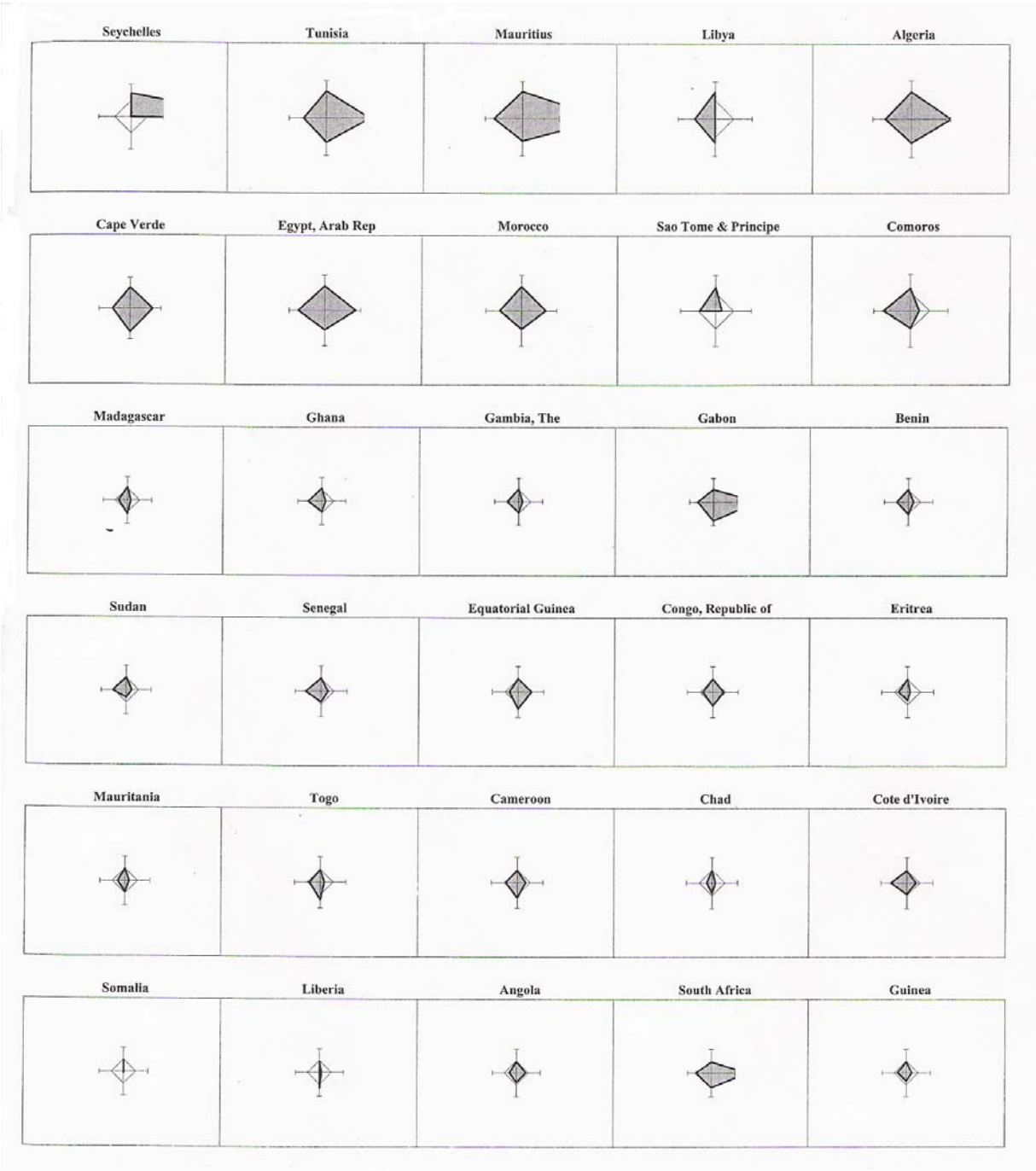
Source: WORLD BANK (1995)

Figure 1 – Development Diamonds for all African Countries, 1993 (sorted by life expectancy) (continued)



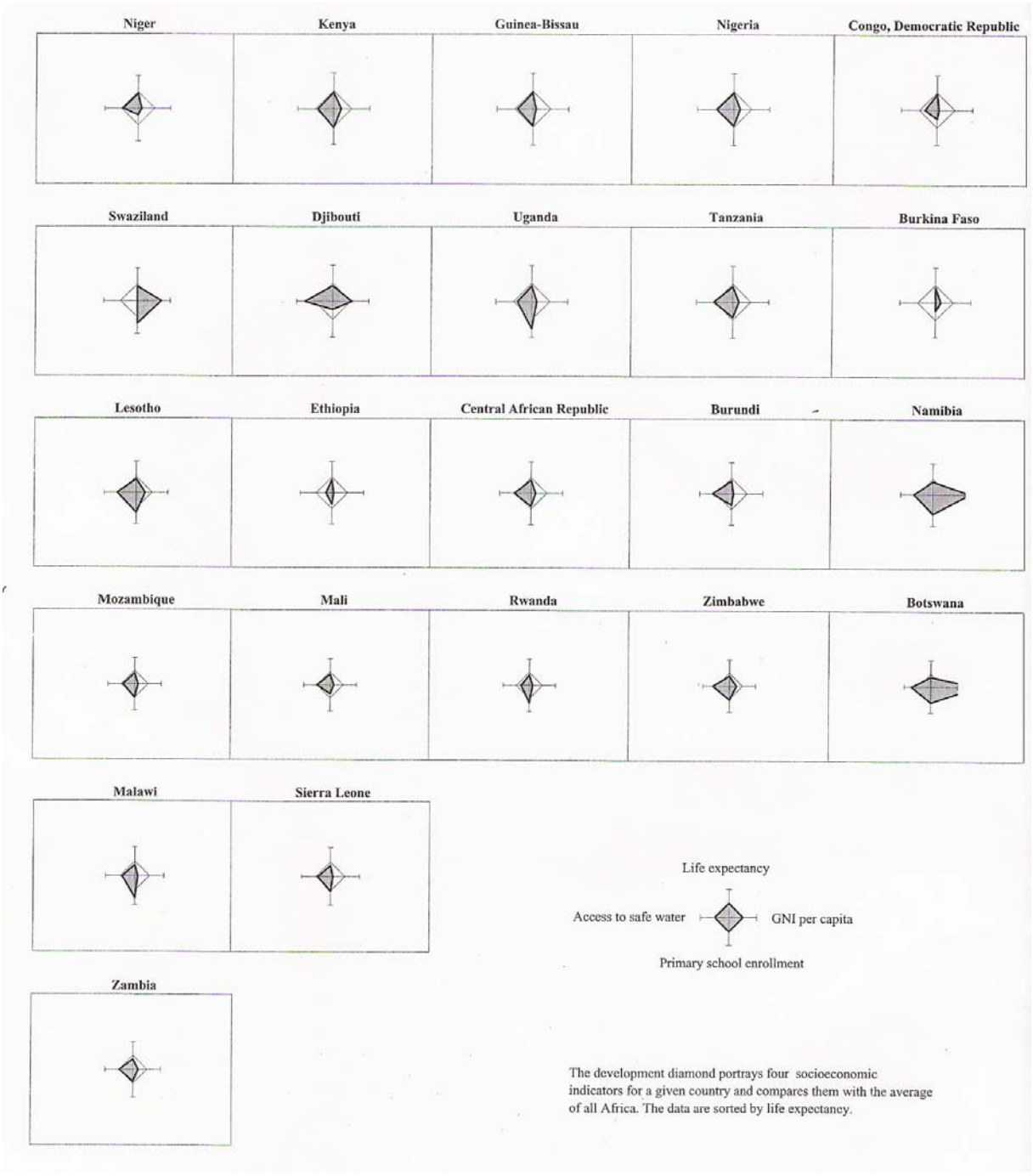
Source: WORLD BANK (1995)

Figure 2 - Development Diamonds for all African Countries, 2002 (sorted by life expectancy)



Source: WORLD BANK (2004)

Figure 2 - Development Diamonds for all African Countries, 2002 (sorted by life expectancy) (continued)



Source: WORLD BANK (2004)

Table 8 – HDI and HPI Country Overview

	HDI Value (2001)	HDI Rank (2001)	HPI-1 Value (2001)	HDI-1 Rank (2001)	GDP PPP (million $) (2001)	GDP Pc PPP (2001)	GDP Growth Rate (1975-2001)	GDP Growth Rate (1990-2001)	GDP Highest Value in 1975-2001 (PPP)	Year of the Highest Value
Mauritius	0,779	62	11,1	17	11,8	9.860	4,7	3,9	9.896	2001
Seychelles	0,840	36	N/A	N/A	N/A	N/A	2,5	0,1	N/A	N/A
Cape Verde	0,727	103	20,1	40	2,5	5.570	3,0	3,5	5.57	2001

Source: UNDP Human Development Report 2003

Table 9 – Social Indicators: Population

	Mauritius				Seychelles				Cape Verde			
POPULATION	1968	1980	1993	2002	1976	1980	1993	2002	1975	1980	1993	2002
Total Population (millions of people)	0.80	0.97	1.10	1.21	0.06	0.06	0.07	0.08	0.28	0.29	0.36	0.46
Urban Population (%)	39.9	42.4	40.5	41.9	34.6	40.8	56.8	65.3	21.4	23.5	49.9	64.4
Total Fertility Rate (children/woman)	N/A	2.69	N/A	2.0	4.5	3.83	N/A	2.09	7.03	6.5	N/A	3.46
Age Dependency Ratio	0.9	0.65	0.52	N/A	N/A	N/A	N/A	N/A	1.09	1.1	0.87	N/A

Source: African Development Indicators, African Development Indicators CD ROM and World Development Indicators CD ROM.

Table 10 – Social Indicators: Average Annual Population Growth Rate (%)

	Mauritius			Seychelles			Cape Verde		
	75-79	89-90	90-02	75-79	89-90	90-02	75-79	89-90	90-02
Average Annual Population Growth Rate (%)	1.6	0.9	1.1	1.9	0.8	1.5	0.7	1.6	2.5

Source: African Development Indicators.

Table 11 – Social Indicators: Education

	Mauritius				Seychelles				Cape Verde			
EDUCATION	1968	1980	1993	2002	1976	1980	1993	2002	1975	1980	1993	2002
Adult Iliteracy Rate (%) > 15 years	N/A	26	18.7	14.7	N/A	N/A	N/A	N/A	56	49.5	32.7	24.3
Gross Primary School Enrollment Ratio, Total (%)	N/A	92.7	107	N/A	N/A	N/A	N/A	N/A	127	114	131	N/A
Gross Secondary School Enrollment Ratio, Total (%)	N/A	50	59	N/A	N/A	N/A	N/A	N/A	6.6	7.91	27.1	N/A
Primary Pupil/Teacher Ratio	N/A	20.2	21.2	N/A	N/A	22	18	N/A	52.1	40.1	29.4	N/A

Source: African Development Indicators.

Table 12 – MDG: GOAL 1 – Eradicate Extreme Poverty and Hunger

	Halve between 1990-2015 the proportion of people whose income is less than $1 a day			Halve between 1990-2015 the proportion of people who suffer from hunger		
	Proportion of population nelow $1 (PPP) a day (%)	Poverty Gap Ratio (%)	Share of Poorest Quantile in National Consumption (%)	Prevalence of Underweight Children under 5 years of age	Proportion of Population below Minimum level of dietary energy consumption	
	1990-2001	1990-2001	1990-2001	1990/1992	1990/1992	1998/2000
Mauritius	N/A	N/A	N/A	16	6	5
Seychelles	N/A	N/A	N/A	6	N/A	N/A
Cape Verde	N/A	N/A	N/A	14	N/A	N/A

Source: UNDP Human Development Report 2003

Table 13 - MDG: GOAL 2 – Achieve Universal Primary Education

	Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of Primary Schooling					
	Net Enrollment Ratio in Primary Education (%)		Proportiom of Pupils starting Grade 1 who reach Grade 5 (%)		Literacy Rate of 15 to 24 years old (%)	
	1990-1991	2000-2001	1990-1991	2000-2001	1990	2001
Mauritius	95	95	98	N/A	91,1	94,0
Seychelles	N/A	N/A	93	N/A	N/A	N/A
Cape Verde	N/A	99	N/A	N/A	81,5	88,6

Source: UNDP Human Development Report 2003

Table 14 - MDG: GOAL 4 – Reduce Child Mortality

	Reduce by 2/3, between 1990-2015, the Under-5 Mortality Rate					
	Under-5 Mortality Rate (‰)		Infant Mortality Rate (‰)		Proportion of one-year-old children immunised against measles	
	1990	2001	1990	2001	1990	2001
Mauritius	25	19	21	17	76	90
Seychelles	21	17	17	13	86	95
Cape Verde	60	38	45	29	79	72

Source: UNDP Human Development Report 2003

Table 15 - MDG: GOAL 5 – Improve Maternal Health

	Reduce by 3/4, between 1990-2015, the materny mortality rate	
	Maternal Mortality Ratio (per 100.000 born still)	Proportion of Births attended by Skilled Health Personnel (%)
	1995	1995-2001
Mauritius	45	N/A
Seychelles	N/A	N/A
Cape Verde	190	53

Source: UNDP Human Development Report 2003

Table 16 - MDG: GOAL 3 – Promote Gender Equality and Empower Women

	Eliminate Gender Disparity in Primary and Secondary Education, preferebly by 2005, and in all levels of education no later than 2015									
	Ratios of Girls to Boys in Primary, Secondary and Tertiary Education				Ration of Literate Women to Men Ages 15 to 24		Share of Women in Wage Employment in the Nonagricultural Sector (%)		Proportion of Seats held by Women in National Parliaments (%)	
	Primary Education		Secondary Education	Tertiary Education						
	90-91	00-01	00-01	00-01	1990	2001	1990	2001	1990	2001
Mauritius	0,98	0,97	0,92	1,32	1,00	1,01	37	39	7	6
Seychelles	N/A	0,97	1,02	N/A	N/A	N/A	N/A	N/A	16	29
Cape Verde	N/A	0,96	N/A	N/A	0,87	0,93	N/A	N/A	12	11

Source: UNDP Human Development Report 2003

Table 17 - MDG: GOAL 6 – Combat HIV/AIDS and other Diseases

	Have Halted by 2015 and begun to reserve the indicidence of Malaria and other major diseases								
	Death rates associated with Malaria (per 100.000)		Prevalence of Malaria (per 100.000)	Proportion of Children below 5 years of age, in malaria-risk areas using effective malaria prevention and treatment measures		Death Rates Associated with Tuberculosis (per 100.000)	Prevalence of Tuberculosis		
	All Ages	Children 0-4		Mosquito Nets (%)	Malaria Treatment (%)		Per 100.000	Cases detected under DOTS (%)	Cases cured under DOTS (%)
	2000	2000	2000	1999-2002	1999-2002	2001	2001	2001	2001
Mauritius	0	0	1	N/A	N/A	12	57	24	93
Seychelles	4	40	N/A	N/A	N/A	6	26	77	82
Cape Verde	22	145	N/A	N/A	N/A	46	188	40	N/A

Source: UNDP Human Development Report 2003

Table 18 - MDG: GOAL 7 – Ensure Environmental Sustainability (I)

	Integrate the Principles of Sustainable Development into Country Policies and Programmes and Reverse the Loss of Environmental Resources (Land and Air)								
	Proportion of Land Area covered by Forest (%)		Racio of Area protected to surface area	Energy Use per $1 PPP (Kilograms of Oil Equivalent)		Carbon Dioxide Emissions per capita		Consumption of Ozone Depleting chloroflurocarbons (ODP tons)	
	1990	2000	2003	1990	2000	1990	2000	1990	2000
Mauritius	8,4	7,9	0,08	N/A	N/A	1,1	2,1	76*	14
Seychelles	66,7	66,7	1,11	N/A	N/A	1,6	2,7	3	1
Cape Verde	8,7	21,1	N/A	N/A	N/A	0,2	0,3	N/A	N/A

* Data refers to 1998.

Source: UNDP Human Development Report 2003

Table 19 - MDG: GOAL 7 – Ensure Environmental Sustainability (II)

	Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation (Water and Sanitation)					
	Proportion of Population with Sustainable Access to an Improved Water Souce				Proportion of the Population with Access to Improved Sanitation (%)	
	Rural (%)		Urban (%)			
	1990	2000	1990	2000	1990	2000
Mauritius	100	100	100	100	100	100
Seychelles	N/A	N/A	N/A	N/A	N/A	N/A
Cape Verde	N/A	89	N/A	64	N/A	95

Source: UNDP Human Development Report 2003

Table 20 - MDG: GOAL 8 – Develop a Global Partnership for Development (I)

	Adress the Special Needs of Landlocked Countries and SIDS		Deal Comprehensively with the Debt Problems of Developing Countries throught National and International Measures		
	ODA and Public Aid received by SIDS (% GNI)		Debt Service as a % of exports of Goods and Services		Debt Relief committed under HIPC Debt Initiative
	1990	2001	1990	2001	
Mauritius	3,8	0,5	8,9	7,0	N/A
Seychelles	10,1	2,4	7,3	4,7	N/A
Cape Verde	31,7	13,1	7,8	2.1	N/A

Source: UNDP Human Development Report 2003

Table 21 - MDG: GOAL 8 – Develop a Global Partnership for Development (II)

	Provide Access to Affordable Essential Drugs in Developing Countries	Make Available the Benefits of New Technology, especially Information and Communications					
	Proportion of the population with Access to Affordable Essential Drugs on a Sustainable Basis (%)	Telephone Lines and Cellular Subscribers per 100 people		Personal Computers in use per 100 People		Internet Users per 100 People	
	1999	1990	2001	1990	2001	1990	2001
Mauritius	95-100	5,5	48,3	N/A	13,2	0,4	10,8
Seychelles	80-94	12,4	80,0	N/A	11,0	N/A	14,7
Cape Verde	80-94	2,4	21,5	N/A	2,7	N/A	6,9

Source: UNDP Human Development Report 2003

Table 22 – National Accounts

National Accounts	Mauritius			Seychelles			Cape Verde		
	1980	1993	2002	1980	1993	2002	1980	1993	2002
Real GDP (million $, 1995 prices)	1,686	3,512	5,500	326	517	678	171	427	733
GDP per capita ($, 1995 prices)	1746	3202	4538.1	5098	7076.6	8071	593	1173	1600
Nominal GDP (million $, 1995 prices)	1,153	3,307	4,533	147	474	699	107	363	644
GDP per capita (current $)	1194	3015	3739.7	2302	6492	8320	369	997.9	1405
GNI per capita	N/A	3,100	3,900	2,110	6,390	7,050	N/A	1,110	1,250
GDP per capita based on PPP (Current $)	2499	7652	10,810	4361	10,503	N/A	N/A	2680	5000
GDP per capita based on PPP ($, 1995 prices)	3764	6739	9577.2	N/A	N/A	N/A	N/A	3254	4427
Gross Domestic Investment (%GDP)	25.4	30.0	21.9	38.3	28.4	30.5	51.6	39.7	20.9
Gross Public Investment (%GDP)	9.1	4.1	3.9	N/A	11.1	9.4	N/A	28.2	11.2
Gross Private Investment (%GDP)	15.1	23.7	18.0	N/A	15.5	21	20.8	11.5	9.7
Gross Domestic Savings (%GDP)	14.5	25.2	25.7	27.1	18.2	27.8	-24.0	3.7	-10.1
External Balance on Goods and Services (%GDP) GDS - GDI	-10.9	-4.8	3.8	-11.2	-10.2	-2.7	-75.6	-36.9	-35.9
Inflation rate (consumer prices annual %)	42.0	10.52	6.7204	13.57	1.38	0.175	N/A	5.825	1.878

Source: African Development Indicators, African Development Indicators CD ROM and World Development Indicators CD ROM.

Table 23 – Economic Sector as a Percentage of Gross Domestic Product

Economic Sector (% of GDP)	Mauritius			Seychelles			Cape Verde		
	1980	1993	2002	1980	1993	2002	1980	1993	2002
Agriculture	13.96	9.688	6.199	6.84	4.17	2.88	13.6	13.7	10.8
Industry	22.31	28.48	27.49	15.6	18.8	30	17.3	20.5	16.5
Manufacturing	13.32	20.34	20.29	7.38	10.6	18.2	N/A	9.63	7.90
Textiles and clothing (% of value added in manufacturing)	29.8	45.53	47.64	2.49	N/A	N/A	N/A	N/A	N/A
Services	48.51	48.19	54.93	69.5	50.9	59.2	69.1	65.8	72.8

Source: African Development Indicators CD ROM

Table 24 – GDP Real Growth Rate (%)

	Mauritius			Seychelles			Cape Verde		
	75-84	85-94	95-02	75-84	85-94	95-02	75-84	85-94	95-02
GDP real growth rate (%)	N/A	6.5	5.3	3.4	5.7	4.4	10.0	6.4	6.3

Source: African Development Indicators

Table 25 – Average Annual Growth Rate of Value Added in Agriculture, Industry and Services

Average Annual Growth Rate	Mauritius			Seychelles			Cape Verde		
	75-84	85-94	95-02	75-84	85-94	95-02	75-84	85-94	95-02
Value Added in Agriculture	N/A	0.7	1.2	-3.1	-1.7	2.9	12.7	4.6	6.7
Value Added in Industry	N/A	9.2	5.5	2.0	6.3	9.6	6.3	8.8	5.7
Value Added in Services	N/A	6.4	6.0	-3.9	4.4	3.7	10.5	6.1	6.4

Source: African Development Indicators

Table 26 – Balance of Payments

Balance of Payments	Mauritius			Seychelles			Cape Verde		
	1980	1993	2002	1980	1993	2002	1980	1993	2002
Current Account Balance, excluding net capital grants (million $, current prices)	-117	-44	238	-23	-42	-17	-25	-33	-69
Mechandise Exports , f.o.b (million $, current prices)	406	1,343	1,569	6	49	236	9	4	42
Mechandise Imports , f.o.b (million $, current prices)	494	1,541	1,799	84	216	376	80	152	277
Exports - Imports (Merchandise, million $, current prices)	-88	-198	-230	-78	-167	-140	-71	-148	-235
Exports of Services - nonfactor and factor - (million $, current prices)	154	660	1,240	97	211	314	14	46	159
Travel services (% of commercial service exports)	47.0*	54.13	54.0	44.2*	51.6	55.3	3.6*	25.3	45.4
Imports of Services - nonfactor and factor - (million $, current prices)	201	609	833	43	104	291	8	36	158
Exports - Imports (Services, million $, current prices)	-47	51	407	54	107	23	6	10	1
Net Private Transfers (million $, current prices)	16	92	64	0	-6	-10	40	71	127
Net Official Current Transfers (millionn $, current prices)	0	5	-3	15	22	13	0	34	39

* Data refers to 1985.

Source: African Development Indicators, African Development Indicators CD ROM and World Development Indicators CD ROM.

Table 27 – External Sector

External Sector	Mauritius			Seychelles			Cape Verde		
	1980	1993	2002	1980	1993	2002	1980	1993	2002
Trade (% GDP)	104.4	122.2	117.5	147	119	159	N/A	62.6	99.5
Net Foreign Direct Investment - (million $, current prices)	0	-36	28	6	6	38	N/A	3	32
Foreign direct investment, net inflows (% of GDP)	0.104	0.444	0.609	6.45	3.97	8.79	N/A	0.99	2.4
Net Long Term Borrowing - (million $, current prices)	79	22	-14	12	6	1	N/A	6	20
Other Capital Flows - (million $, current prices)	84	25	11	0	7	78	N/A	-24	43
Use of Reserves - (million $, current prices)	-3	56	-243	-8	-3	-26	0	4	-23
Import Coverage Ratio of Reserves (Reserves in months of imports of goods and services)	2	4	6	2	1	1	6	4	2

Source: African Development Indicators, African Development Indicators CD ROM and World Development Indicators CD ROM.

Table 28 – The Current Account in detail

Series	Country	1980	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Merchandise Exports, Million $, Current Prices	Mauritius	406	1,343	1,334	1,473	1,629	1,727	1,599	1,680	1,523	1,633	1,569
	Seychelles	6	49	52	53	78	115	123	146	195	217	236
	Cape Verde	9	4	20	24	30	38	23	8	40	37	42
Merchandise Imports, Million $, Current Prices	Mauritius	494	1,541	1,556	1,875	1,945	2,013	1,972	2,046	2,006	1,913	1,799
	Seychelles	84	216	188	214	263	304	352	375	304	415	376
	Cape Verde	80	152	191	219	206	211	208	223	233	232	277
Difference (Merchandise Exports - Imports)	Mauritius	-88	-198	-222	-402	-316	-286	-373	-366	-483	-280	-230
	Seychelles	-78	-167	-136	-161	-185	-189	-229	-229	-109	-198	-140
	Cape Verde	-71	-148	-171	-195	-176	-173	-185	-215	-193	-195	-235
Exports of total services (nonfactor and factor), Million $, Current Prices	Mauritius	154	660	630	757	890	944	908	1,007	1,113	1,207	1,240
	Seychelles	97	211	201	224	247	265	284	285	280	291	314
	Cape Verde	14	46	53	68	85	99	89	108	117	136	159
Imports of total services (nonfactor and factor), Million $, Current Prices	Mauritius	201	602	583	666	723	792	740	799	794	863	833
	Seychelles	43	104	95	115	133	145	165	183	218	241	291
	Cape Verde	8	36	40	62	77	88	98	127	121	132	158
Difference (Service Exports - Imports)	Mauritius	-47	58	47	91	167	152	168	208	319	344	407
	Seychelles	54	107	106	109	114	120	119	102	62	50	23
	Cape Verde	6	10	13	6	8	11	-9	-19	-4	4	1
Net Private Transfers, Million $, Current Prices	Mauritius	16	92	93	88	101	109	92	86	90	55	64
	Seychelles	0	-6	-7	-5	-6	-6	-8	-7	-6	-6	-10
	Cape Verde	40	71	81	93	96	71	79	107	114	109	127
Net Official Current Transfers, Million $, Current Prices	Mauritius	0	5	7	15	12	3	10	5	6	7	-3
	Seychelles	15	22	15	13	165	15	17	10	9	9	13
	Cape Verde	0	34	40	45	45	36	42	41	22	12	39
Current Account Balance Excluding net capital grants, Million $, Current Prices	Mauritius	-117	-44	-75	-208	-35	-22	-103	-65	-69	126	238
	Seychelles	-23	-42	-21	-44	-61	-60	-100	-124	-45	-145	-114
	Cape Verde	-25	-33	-38	-51	-27	-55	-74	-87	-62	-68	-69
Current Account Balance Excluding net capital grants (% GDP)	Mauritius	-10.2	-1.3	-2.2	-5.5	-0.9	-0.5	-2.5	-1.6	-1.6	2.8	5.2
	Seychelles	-15.9	-8.9	-4.4	-8.7	-12.0	-10.7	-16.5	-19.8	-7.2	-23.5	-16.3
	Cape Verde	-23.5	-9.0	-9.1	-10.3	-5.4	-10.8	-13.7	-14.9	-12	-11.9	-10.7

Source: African Development Indicators

Table 29 – Foreign Direct Investment in detail

Series	Country	1980	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Net Foreign Direct Investment (Million $, Current Prices)	Mauritius	0	-36	-1	22	31	5	20	19	13	197	28
	Seychelles	6	6	17	30	25	38	40	46	14	22	38
	Cape Verde	N/A	3	2	26	28	12	9	67	34	34	32
Foreign direct investment, net inflows (% of GDP)	Mauritius	0.10	0.44	0.59	0.49	0.88	1.26	0.29	1.18	6.00	-0.61	0.61
	Seychelles	6.45	3.97	6.30	9.03	5.72	9.49	8.74	8.86	3.93	9.62	8.79
	Cape Verde	N/A	0.99	0.51	5.34	5.68	2.29	1.67	9.14	6.29	1.65	2.40

Source: African Development Indicators and World Development Indicators CD ROM.

Table 30 – Net Foreign Direct Investment (Annual Average %)

	Mauritius			Seychelles			Cape Verde		
	75-84	85-94	95-02	75-84	85-94	95-02	75-84	85-94	95-02
Net Foreign Direct Investment - Annual Average (%)	1	11	42	5	9.0	32	N/A	1.0	30

Source: African Development Indicators

Table 31 – Commodity Trade

Commodity Trade	Mauritius			Seychelles			Cape Verde		
	1980	1993	2002	1980	1993	2002	1980	1993	2002
Sugar Exports (thosands of metric tons)	618	535	571	N/A	N/A	N/A	N/A	N/A	N/A
Manufactured Goods Exports (Millions $ current prices)	108	861	1,101	N/A	11	169	N/A	1	0
Manufactured Goods Imports (Millions $ current prices)	0	0	644	N/A	0	43	N/A	N/A	16
Food Imports (Millions $ current prices)	143	219	316	N/A	46	112	N/A	53	61
Food imports (% of merchandise imports)	26.3	19.92	18.98	20.8	13.94	21.9	42.7	31.1*	33.7**
Nonfood Consumer Goods Imports (Millions $ current prices)	46	159	108	N/A	159	108	N/A	57	52
Fuel Imports (Millions $ current prices)	84	126	184	N/A	34	60	N/A	6	26
Primary Intermediate Goods Imports (Millions $ current prices)	0	0	215	N/A	0	0	N/A	N/A	36
Capital Goods Imports (Millions $ current prices)	89	378	456	N/A	60	126	N/A	71	109

* Data refers to 1995.
** Data refers to 2001.
Source: African Development Indicators and World Development Indicators CD ROM.

Table 32 - Government Finance

Goverment Finance	Mauritius			Seychelles			Cape Verde		
	1980	1993	2002	1980	1993	2002	1980	1993	2002
Government Deficit/surplus including Grants (% of GDP)	-10.9	-1.9	-6.0	N/A	-11.3	-19.4	N/A	-9.3	-0.9
Government Deficit/surplus excluding Grants (% of GDP)	-10.9	-2.1	-6.2	N/A	-12.9	-20.0	N/A	-24.6	-9.3
Government Primary Deficit/Surplus (% of GDP)	N/A	0.9	-2.6	N/A	-3.4	-10.8	N/A	-2.9	1.7
Government Interest Payments (% of GDP)	N/A	2.8	3.3	1.8	7.9	8.6	N/A	1.2	2.6
Public and publicly guaranteed (PPG) debt service (% of exports of goods and services)	5.98	5.45	6.32	0.29	5.48	2.36	14.3*	11.9	10.4
PPG debt service (% of central government current revenue)	14.7	15.3	15.9***	10.2*	7.07	4.27	N/A	N/A	N/A
Total debt service (% of exports of goods and services)	24.3*	6.54	8.24	7.91*	5.8	2.64**	9.5*	5.09	7.6
Government Revenue Excluding Grants (% of GDP)	22.0	21.0	18.2	N/A	51.4	36.5	N/A	23.5	22.5
Grants to Government (% of GDP)	0.0	0.1	0.2	0.0	1.6	0.7	0.0	15.3	8.4
Foreign financing of deficit (% of GDP)	5.7	-0.6	0.781	6.23*	0.92	N/A	14.0*	3.24	3.73

* Data refers to 1995.
** Data refers to 2000.
*** Data refers to 2001.
Source: African Development Indicators, African Development Indicators CD ROM and World Development Indicators CD ROM.

Table 33 – External Debt and Related Flows

External Debt and Related Flows	Mauritius			Seychelles			Cape Verde		
	1980	1993	2002	1980	1993	2002	1980	1993	2002
Net Flows: Long and Short Term Loans, including IMF (Millions $ current prices)	104	22	6	-390	-3	1	N/A	6	30
Long Term Debt: Official Concessional (Millions $ current prices)	65	384	294	19	67	98	N/A	107	346
Long Term Debt: Official Nonconcessional (Millions $ current prices)	89	241	298	6	29	36	0	31	19
Long Term Debt: Private (Millions $ current prices)	165	275	319	0	35	15	N/A	2	20
Total External Debt (Millions $ current prices)	467	1,008	1,803	84	157	253	N/A	148	414
Total Debt Servive (% of Exports of Goods and Services)	36.2	6.536	8.244	9.04	5.8	2.64	9.51*	5.09	7.6

* Data refers to 1985.

Source: African Development Indicators.

Table 34 – Structure of External Debt

		Bilateral				Multilateral				Private		Short Term		IMF	
		Concessional		Nonconcessional		Concessional		Nonconcessional							
		1980	2002	1980	2002	1980	2002	1980	2002	1980	2002	1980	2002	1980	2002
Structure of External Debt (Millions $ current prices)	Mauritius	39	231	37	84	25	63	53	214	165	319	47	892	102	0
	Seychelles	16	72	4	6	3	26	2	31	0	15	59	103	0	0
	Cape Verde	N/A	73	0	13	N/A	273	0	6	N/A	20	N/A	25	0	3
Structure of External Debt Service Payments (Millions $	Mauritius	2	37	4	14	0	5	6	37	29	128	8	30	3	0
	Seychelles	0	1	0	0	0	0	0	0	0	11	37	2	0	0
	Cape Verde	N/A	4	0	1	N/A	9	0	3	N/A	4	0	1	0	0

Source: African Development Indicators.

Table 35 – Aid Flows

Aid Flows	Mauritius			Seychelles			Cape Verde		
	1980	1993	2002	1980	1993	2002	1980	1993	2002
Net Aid from all Donors as Share of Recipient GDP (%GDP)	2.9	0.8	0.5	14.7	4.1	1.1	60.3	32.3	14.3
Net Aid from Multilateral Donors as Share of Recipient GDP (%GDP)	0.7	0.0	0.4	2.3	2.6	0.6	22.0	9.8	7.8
Net Aid per capita from all Donors ($, current prices)	34	24	20	340	268	93	223	323	201
Net Aid per capita from Multilateral Donors ($, current prices)	8	1	16	54	166	50	81	98	110

Source: African Development Indicators.

Table 36 – Annual Average of Aid Flows

Annual Average	Mauritius			Seychelles			Cape Verde		
	75-84	85-94	95-02	75-84	85-94	95-02	75-84	85-94	95-02
Net Aid from all Donors as Share of Recipient GDP (%GDP)	3.7	2.5	0.7	14.5	7.7	2.7	47.2	36.5	20.3
Net Aid from Multilateral Donors as Share of Recipient GDP (%GDP)	1.2	0.3	0.5	1.3	2.0	1.0	15.6	11.3	7.3
Net Aid per capita from all Donors ($, current prices)	37	48	25	242	324	200	144	298	264
Net Aid per capita from Multilateral Donors ($, current prices)	12	7	17	25	83	74	46	90	95

Source: African Development Indicators.